Accounting and Trade Unions : The Incompatibles?

A Case Study of Closures at Dunlop

Thomas William McGovern BSc., Msc., PhD.

University of Warwick

School of Industrial and Business Studies

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Contents

List of Tables

List of Figures

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Preface

The objective of this dissertation is to explore the usefulness of accounting information to trade unions. Evidence from this and previous research supports the view that, at best, trade unions believe financial information to be of little use and, at worst, as largely irrelevant. By contrast, financial analysts use the same information in conjunction with other published economic and industrial statistics, to assist investors to monitor and, in effect, control the economy. This suggests there is an incentive for the unions to acquire the necessary skills to analyse financial information, so that they too can monitor management policy, and thus be in a better position to further the interests of their members. And yet they do not, and show few signs of wanting to.

To understand this apparent paradox, this thesis argues that the trade unions use of accounting information has to be understood in the context of their methods, objectives and role in capitalist society.

This thesis concludes that for the trade unions to realise the potential of accounting information, they would need to organise on the basis of "strategic unionism". The arguments presented are illustrated and developed through a detailed analysis of closures at Dunlop during the late 1970s and early 1980s. The case-study shows (a) that the trade unions could have foreseen Dunlop's closure programme by utilising the information potentially available to them, and (b) that they failed to do so because of the constraints imposed upon their strategic uses by organisational and institutional weaknesses.

Abbreviations

Companies

B.L.	British Leyland.
B.S.C.	British Steel Corporation.

Employers' Organisations

B.I.M.	British Institute of Management.
B.R.M.A.	British Rubber Manufacturers Association.
C.B.I.	Confederation of British Industry.
S.M.M.T.	Society for Motor Manufacturers and Traders.

Government and other Official Bodies

A.C.A.S.	Advisory, Conciliation and Arbitration Service.
C.A.C	Central Arbitration Committee.
C.I.R.	Commission on Industrial Relations.
C.P.R.S	Central Policy Review Staff.
E.D.C.	Economic Development Committee.
M.I.T.G.	Motor Industry Tripartite Group.
N.E.D.C.	National Economic Development Committee.
N.E.D.O.	National Economic Development Office.
N.J.I.C.	National Joint Industrial Council.
R.P.P.I.T.B.	Rubber and Plastics Industry Training Board.
S.W.P.	Sector Working Party.

Research Organisations

E.I.U.	Economist Intelligence Unit.
I.R.S.G.	International Rubber Study Group.

Trade Unions

A.P.E.X.	Association of Professional, Executive, Clerical and Computer Staffs.
A.C.T.S.	Association of Clerical, Technical and Supervisory Staffs.
A.S.T.M.S.	Association of Scientific, Technical and Managerial Staffs.
A.U.E.W.	Amalgamated Union of Engineering Workers.
E.E.T.P.U.	Electrical, Electronic, Telecommunications and Plumbing Union.
G.M.B.A.T.U.	General, Municipal, Boilermakers and Allied Trades Union.
G.M.W.U.	General and Municipal Workers' Union.
I.S.T.C.	Iron and Steel Trades Confederation.

M.A.T.S.A.	Managerial, Administrative, Technical and Supervisory Association.
N.G.A.	National Graphical Association.
N.U.M.	National Union of Mineworkers.
N.U.S.M.W.	National Union of Sheet Metal Workers, Coppersmiths and Heating and Domestic Engineers.
T.A.S.S.	Technical, Administrative and Supervisory Section.
T.G.W.U.	Transport and General Workers Union.
T.U.C.	Trades Union Congress.
U.C.A.T.T.	Union of Construction, Allied Trades and Technicians.
U.S.D.A.W.	Union of Shop, Distributive and Allied Workers.

Foreign Trade Unions

C.G.I.L.	Confederazione Generale Italiana del Lavoro.
C.G.T.	Confédération Générale du Travail.
C.I.S.L.	Confederazione Italiana Sindacati Lavoratori.

International Trade Union Bodies

I.C.E.F.	International Federation of Chemical, Energy and General Workers' Unions.
I.C.F.T.U.	International Confederation of Free Trade Unions.
I.C.P.S.	Trade Unions International of Chemical, Oil and Allied Workers.
W.F.T.U.	World Federation of Trade Unions.

Other bodies

D.R.W.J.U.C.	Dunlop Rubber Workers Joint Union Committee.
N.J.C.	National Joint Committee.
R.U.J.C.	Rubber Unions Joint Committee.

CHAPTER 1 - INTRODUCTION

In theory accounting information should be useful to trade unions. In practice, it appears not to be. Investors use financial and other data to value assets, and to monitor the performance of companies, industries and the economy. Why do trade unions not use the same information and techniques to analyse and understand management's plans? The purpose of this thesis is to explore this question.

A key source of financial information potentially available to the trade unions are the published accounts of companies. However, as these were not specifically designed for use by trade unions they appear to believe that they are inappropriate for their puposes. This led Cooper and Essex (1977) to conclude that:

> ".....the complexity of accounts, the belief that they are susceptible to manipulation by management, their aggregated nature and their concentration on financial data which are only a part of likely information needs, results in the attitude that accounts are inadequate and hence, infrequently used" (p.210).

One senior trade unionist, Clive Jenkins, has gone further by expressing an apparently widely held view that "published accounts are utterly and absolutely useless" (quoted from Holmes and Sugden, 1982, p.iii). Some union researchers have voiced similar opinions. For example, Gold et al (1979) suggested that trade unions are unable to use company information effectively in collective bargaining, because "what is publicly available is not of real relevance, reliability, suitability or usefulness" (p.20). Whilst Moore (1978) declared that:

> "The most basic weaknesses of company accounts and reports is that they are historic documents which are out of date and lacking any serious forward-looking or "prospective" dimension" (p.1).

However, it is clear that these statements are based on a misunderstanding of the accounting model. Financial analysts, for example, routinely use company accounts to estimate the "earning power" of an enterprise, a measure of the ability of a company "to generate cash inflows in excess of outlays in the long run" (May, 1977, p.94), or the cash generated in excess of the investment in assets required to maintain the company in "steady state".

The importance of company accounts is that they form one part of the total financial information used by analysts to build economic and financial models of companies, industries and national economies. It is collected and produced in the interests of investors, and it is used to protect and further their objectives. However, the information which enables investors to control and monitor the economy, could theoretically also be used by the unions for the same purpose. As Bryer et al (1984a) have pointed out, in Britain and the United States there is

> "an efficient and effective system for the financial control of industry based largely on publicly available information. Ironically, the effective control of private industry is made possible only by making the system that achieves it 'public'" (p.21).

The main reason is that the public availability of economic and financial information from company reports, government publications, academic institutions and other research bodies, substantially reduces

the cost of collection, validation and analysis. If investors had to assemble this information individually the cost would be prohibitive. To quote one student of business policy:

> "In the end, the most reliable intelligence sources for competing organisations are open; the best data, seldom secret, are the actions of the other party" (Wilensky, 1967, p.72).

The trade unions, therefore, theoretically have the opportunity to formulate policies and strategies for individual companies, industries and for the economy as a whole, using the same publicly-available information. However, the unions invariably disregard accounting and financial analysis, even though in doing so it has been argued that they are placed at an unnecessary disadvantage. This is because

> "accounting and finance are the most important planning tools of capitalism; decisions are made and performance is measured in financial terms, and if investors' plans are to be understood and challenged financial analysis is indispensable" (Bryer et al, 1984b, p.227).

But, as Reeves and McGovern (1982) have pointed out:

> "The instinctive reaction that many trade unionists feel about becoming too closely involved with managerial decision-making is a powerful inhibitor.....for (making) more extensive uses of company information" (p.27).

A key problem appears to be that many trade unionists believe that financial information is the property of management, who are seen as controlling the enterprise through their possession of this "valuable neutral commodity" (Gold et al, 1979, p.98). Similarly, Owen and Broad (1983) in their interviews with 14 blue collar and 11 white collar stewards (a small sample), found that just over half of the former group believed that the information provided by management was "unbiased and

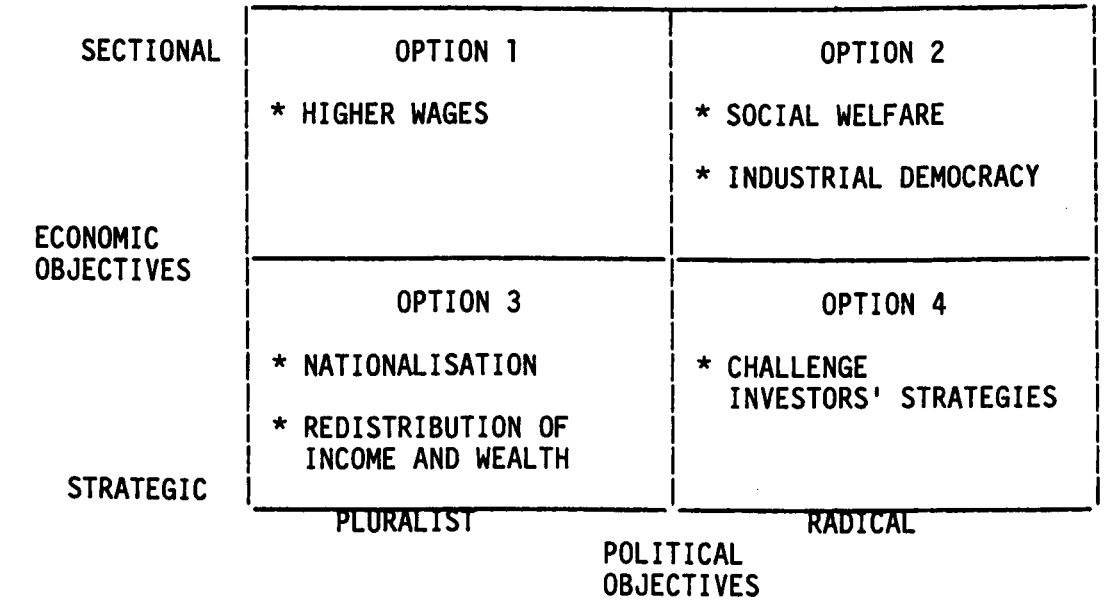
factual"; a view, however, which was not supported by a single white collar steward. Overall, Owen and Broad found that the white collar stewards were highly sceptical of information disclosed by management, whereas all of the manual stewards said they found it slightly useful, with six stating that it was moderately or very useful. These researchers also found a "low ambitiousness of demands" on the part of the manual stewards, with nearly half claiming that they had enough say in decisions made at work, whilst only one white collar steward supported this view. Further, when specific decisions were considered: the introduction of new products; investment plans; and the drawing up of financial budgets, white collar stewards likewise displayed a low level of ambition, with just over half in each case claiming that it was a "management matter". Yet decisions taken in all three areas have a strong bearing on job prospects, which we shall see, has been claimed to be of paramount importance to the concept of trade unionism. However, not planning strategically in the context, of an understanding of management's plans, merely responding to management's decisions, is inconsistent with the claims that an objective of trade unions is to defend employment.

The question therefore arises: why do the trade unions not develop policies to make effective use of financial information, and what implications does this failure have for our understanding of the nature of trade unionism?

Clearly, trade union uses of information must be understood in the context of their goals and objectives. Two dimensions on which these may be explored are their economic and political forms. In principle,

trade unions could pursue either "sectional" economic objectives or "strategic" economic objectives, and they could do so either with "pluralist" or "radical" political objectives. These ideal-typical unions, and their demands for information which are implied, are shown in Figure 1.1 and discussed below:

Figure 1.1 - Ideal-Typical Economic and Political Objectives for Trade Unions



Option 1

Here, trade union policy is primarily concerned with pursuing the economic and sectional interests of its members, usually in the form of higher wages. They look to the state for no positive support. Although the unions may refer to the company's ability to pay, they will mainly refer to "external standards", such as the cost of living index. Such trade unions would need only local financial information and broad economic indicators.

Option 2

Trade unions may extend their objectives from being solely concerned with wage issues, to an interest in the context in which wages and the conditions of life are set. The unions are now concerned with politics, but are heavily constrained by the sectional economic interests of individual unions. At the political level the unions will pursue social welfare policies. This political outlook may spillover into the industrial sector, encouraging the unions to make a wider range of issues subject to joint determination, culminating in a demand for greater industrial democracy. These demands pose no threat to management control, and again the trade unions need only local financial information, and broad economic and social indicators.

Option 3

Here, trade union policy encompasses wider economic objectives. The unions take a more strategic overview of the economy. Sectional economic interests are replaced by a limited consensus. The unions seek a degree of redistribution of income and wealth, and call for the public ownership of key companies and industries. Although such unions may attempt to change the economic system, their aim is not to challenge capitalism. The trade unions still adhere to a pluralistic perspective, which implies that they refrain from directly challenging management prerogatives and control. The trade unions explicitly limit their aspirations, and conflict is institutionalised through the mechanism of collective bargaining. Again, only local financial information and general economic and social indicators are required by trade unions.

Option 4

Here, the unions recognise a need to make more political use of information. A strategic approach replaces their previous "ad hoc" demand for information. Under this policy the unions monitor investors' strategies. They accept that their interests and those of investors are diametrically opposed. The unions adopt a radical political perspective. Here they need all the information demanded by investors. This ideal I call "strategic unionism".

The Case Study

These ideal types are used to explore a detailed case-study of the trade unions' information strategies which arose from the major changes taking place in the UK motor industry and the British tyre sector, with specific emphasis on Dunlop Holdings PLC, one of the principal component suppliers.

During the 1970s, but particularly after 1979, capital investment in British manufacturing industry declined sharply. As a consequence, between 1969 and 1981, employment in manufacturing fell by one-third, with half the job losses occurring after 1979 (Bryer et al, 1984, p.18). By 1981, output had similarly fallen by 22% from its all-time peak in 1973, with two-thirds of the decline resulting after 1979 (Ibid).

Among the major industries affected was vehicle production and its component supply industries. British Leyland, for example, shed 75,000 jobs between 1978-9 and 1981-2, whilst Dunlop lost 19,000 jobs over the same period (Ibid, p.39). Dunlop's problems arose, initially, from its failure to invest in modern manufacturing facilities when the tyre

industry had under-gone a major technological change. Unfortunately for Dunlop, the first oil shock happened to coincide with the spread of the steel radial tyre (which has a life-span more than double that of a crossply tyre) which, in combination, led to a stagnation in output and demand in the British and European tyre markets. Dunlop responded by closing down technologically obsolete production facilities.

We shall see that the strategies adopted by the tyre companies in response to the changes taking place in the motor and rubber industries, raised many information policy issues for the trade unions in the tyre sector which, if they had been tackled, could have influenced policy-making within the unions concerned.

Research Methods and Sources

The fieldwork research for the case-study was divided into two phases:

(1) An identification of the policy issues affecting the British tyre sector;

(2) An identification and appraisal of the information policy responses of the trade unions.

During the first phase, statistics and industrial information were collected on the tyre sector, Dunlop Holdings PLC, and the British motor industry. The purpose was to identify the major problems and issues facing the tyre sector, and to look specifically at the strategy adopted

by Dunlop to respond to these changes. This was supported by a detailed financial appraisal of Dunlop's trading position (see Chapter 4 and Appendices 3 and 4). The main sources of data were obtained from industry and government statistics; market research reports; annual company reports and accounts; reports and minutes of the Tyre Industry Sector Working Party; stockbrokers' reports and circulars; trade journals; trade union reports; newspaper articles; and academic publications. The information collected and analysed was largely publicly available, and is assumed to be identical to that used by financial analysts monitoring the tyre sector. All this information was potentially available to the trade unions.

The second phase of the research was concerned with investigating how far the unions had used this information to develop their policy responses. The purpose was to analyse the strengths and weaknesses in trade union strategy and organisation for acquiring and using business information. To identify the trade union policy and strategy, access was acquired to files and documents of the GMBATU, the major union concerned. Interviews were also carried out with nine union officials, shop stewards and research staff who played an important role in formulating and developing union policy. The GMBATU is the second largest union in the rubber industry behind the TGWU, though it is the union with the largest membership in Dunlop. Union records show membership was highest amongst process and ancillary workers. There were also about 2,000 MATSA union members in the industry, with about 50% employed in Dunlop..

In 1976, the GMBATU established regular, annual, regional and national conferences for the rubber industry. The proceedings of these conferences were analysed. At regional level delegates were elected to attend the national conference, which decided union policy for the rubber industry. The conference gave shop stewards the opportunity to meet with the National Industrial Officer for the industry, and to raise with him issues of major concern. These were supplemented by a conference held each year specifically to discuss policy towards Dunlop, attended by shop stewards from the company. Overall union industrial policy was, however, decided by Congress, which was attended by delegates from all companies and industries.

The thesis is organised in the following manner:

Chapter 2 examines the literature on the industrial and political objectives of trade unions and describes the main methods they use to achieve their goals. It shows that trade unions in Britain tend to be solidly located in cells 1, 2 and 3 of Figure 1.1, where sectional interests predominate, and where the unions' main preoccupation is to enhance their respective members' wages and conditions through collective bargaining. Here accounting information is less useful to trade unions precisely because of their limited economic and political objectives. Thus, even if the unions had full access to all of the information available to management, it would have only a negligible influence on trade union strategies. This is because traditional trade unionism is "reactive" not "proactive", and both the employers and the state have a vested interest in using their power to control and to "domesticate" the objectives of the unions.

Chapter 3 reviews previous research on information disclosure to trade unions. It shows that this research has mainly adopted a pluralist perspective, where disclosure is seen as redressing any imbalance that may exist between what are essentially "equal" partners. It is argued that this view ignores the fact that information disclosure is essentially political. For example, the Government has made the disclosure provisions in the Employment Protection Act (1975) highly restrictive, so that employers are not obliged to disclose information which may disadvantage them in their negotiations with the trade unions.

In Chapter 4 the first part of the case study is presented. It describes the closure of the Dunlop tyre plant at Speke, in Liverpool, and details the efforts made by the workforce at the factory to resist the company's closure plan. These included political campaigning, demonstrations, strikes, sit-ins and alternative plans. We shall see that the trade unions were oblivious of management's plans until they were announced. Further, the unions failed to learn from this experience, and were once more caught unaware by Dunlop's planned sale of its European tyre operations to Sumitomo of Japan.

Chapter 5 reviews the strategic policies pursued by Dunlop during the 1970s and early 1980s. It shows how the company responded to the spread of the steel radial tyre, the decline in car production in Britain and the two oil crises. The chapter outlines the type of information which was available to an investment analyst, and which was thus theoretically available to the trade unions, to analyse and monitor the tyre sector. Far from being surprised by the closure of Dunlop's tyre plants and the rationalisation of its operations, analysts were

fully aware that this strategy was being planned and implemented.

Chapter 6 explores why the unions were unable to use the information available to keep themselves informed about management policies, or to develop their own strategy for the industry. It is based on an analysis of the trade unions involvement in the Tyre Industry Sector Working Party, and explores the institutional constraint which this implied on the trade unions' information demands and concern for industrial strategy.

Chapter 7 summarises the case-study and draws general conclusions.

CHAPTER 2 - THE ROLE OF TRADE UNIONS IN CAPITALISM

There appears to be a clear consensus in the industrial relations literature, among both Marxists and pluralists, that trade unions are incorporated into capitalism and that this serves to influence their aims and objectives. In other words, trade unions are incapable of transforming themselves into revolutionary bodies, or of pursuing objectives that are unacceptable to management or the state. Thus to understand the usefulness of accounting information to trade unions in pursuing their goals, its potential role must be examined in the context of their subordinate position in society.

Not surprisingly, therefore, many Marxists (e.g. Anderson, 1967) are sceptical of the ability of the trade unions to advance the interests of the working class. At the same time, some pluralist writers have concluded that the unions have become largely redundant, and that they have little or no role to play in modern industrial society. John Kenneth Galbraith (1967), for example, argued that "(t)he union belongs to a particular stage in the development of industrial system" (p.274), which is characterised by conflict between employer and employee. However, he believes that once this stage has been surpassed and power shifts to the technostructure, conflict lessens, and the need for unions similarly recedes.

Defensiveness

Although some scholars of the Labour Movement may question these viewpoints, it is nevertheless clear that both Marxists and non-Marxists recognise that there are severe constraints on the ability of unions to achieve their goals in capitalist society. Why, therefore, do workers join unions? Is it because they wish to engage in a revolutionary struggle against capitalism? Or is it because they believe that through collective organisation they will obtain higher wages and better working conditions? Undoubtedly, since most workers have not so far developed a revolutionary consciousness, they are seeking greater material rewards. Indeed, it has often been asserted that the main foundation of trade unionism in Great Briain is job consciousness rather than class consciousness (Milne-Bailey, 1934). Allan Flanders (1968a) has similarly argued that workers do not join trade unions because they share a common social or political philosophy; they do so primarily to gain immediate improvements in their work situation which they expect to follow from collective organisation and collective action. However, this is not the only reason. The operation of the labour market ensures that the employer is able to negotiate with the workforce from a position of strength. He is able to select employees, replace them with machines or dispense with their services when no longer required. The simple act of combination can therefore be interpreted as a defensive measure against the employer.

The Trades Union Congress in its evidence to the Royal Commission on Trade Unions and Employers' Associations (Donovan Commission) set down the defensive nature of trade unionism:

> "Arising out of their status as employed persons, dependent on earnings, dependent on securing and retaining employment, workpeople know that to exercise their rights they must find a means to redress the balance of unequal strength vis-a-vis their employers. Whilst the position of the individual employee, both in law and in practice, is one of subordination, individual employees together recognise that it is through combination that they can develop a means, the essential means which they possess, to harness their own potential strength. It is in the nature of the employment situation that working people readily identify themselves with their fellows in groups. This feeling of collective identity enhances the economic freedon of the individual, a freedom which rests on the knowledge that unity is strength.
>
> Just as the bargaining strength of the individual is enhanced when he combines with his fellow workers in a group at a place of employment, so on a wider plane, trade unions grow in size and extent to become whatever may be the most effective combination of workpeople to advance and protect those interests, arising from their employment, which they have in common" (1966, pp.30-1).

The predominance of defensiveness has played a very important part in shaping the objectives of trade unions. If one looks at the position of weakness and insecurity faced by most working people, it is understandable why this strategy has been adopted. Many workers find themselves in the situation, particularly in a period of recession and high unemployment, where improvements in pay and conditions are of secondary importance. Their prime concern is to prevent their existing position from being made worse. Workers may therefore respond by resisting changes in working practices, the introduction of new machinery or the reduction in manning levels. This can be attributed to the

> "greater priority of the goal of maintaining existing gains over that of pursuing new ones" (Crouch, 1982, p.124).

When workers do decide to push for a particular demand, they have to weigh up the cost of any action against the likely gain. This involves taking into consideration the likely response of the employer. To this extent, workers are forced to press claims that management will find broadly acceptable, rather than radical claims that will be rejected outright; in the words of Perlman (1949):

> "(Manual workers) have had their economic attitudes basically determined by a consciousness of scarcity of opportunity" (p.6).

Workers are also aware that taking industrial action in pursuit of, say, a wage demand, may ultimately lead to a reduction in employment. The employer may respond by sacking striking workers or, if the wage increases are such that they lead to a steep rise in the cost of labour to that of capital, the employer may decide that it is more economic to replace labour by machinery.

Arising out of this defensive posture, trade union action has two fundamental characteristics which are mutually reinforcing. Firstly, it is reactive rather than instigative and, secondly, it is orientated towards the sectional interests of its members. As Hyman (1975) has explained:

> "Trade unionism is primarily reactive because of the right accorded to management in capitalism to direct production and to command the labour force. Unions can win some improvements in workers' conditions, protest successfully at individual decisions, and impose certain general limits on managerial prerogative. But as long as they maintain a primary commitment to collective bargaining, they cannot openly attack the predominant right of the employer to exercise control and initiate change. 'Management would never agree to that': what unions demand in collective bargaining is necessarily constrained by what is considered realistic, and what is realistic is defined in terms of what

> the employer can be persuaded to concede in a negotiated settlement. This clearly does not extend to any radical alteration in the balance of power in industry" (pp.97-8).

According to Clements (1978) the key factor preventing the development of an objective working class identity "in and for itself", has been the fragmentation of the class, especially along industrial lines. This legacy is due, in no small part, to the development of the early craft unions. Propelled by the doctrine of "vested interests", they sought to recruit membership from a distinct trade or occupation. Only those workers who went through an apprenticeship and qualified as a tradesman were eligible for membership. The union allowed entry into its rank to those who possessed this particular skill, regardless of the industry or service where they may be employed. By controlling the entry of apprentices into the trade, and by regulating the length and nature of apprenticeship, the union could control the supply and price of labour; a tradition inherited from the early craft societies (Clegg et al, 1964, p.5).

However, the organisational development of trade unions along sectional lines also helped to dissipate the unions' radical socialist perspective, and to blur the common interests of workers, thereby hindering the development of class consciousness. This is because collective bargaining, by its very structure, encourages sectional interests as well as providing an institutional means of regulating and controlling industrial militancy. Trade unions are therefore unable to bring about a revolutionary change in society because

> "(t)he normal activities of unions which necessitate estalished bargaining relationships with employers, conciliation and compromise, and the division of the working class along the lines of sectional interests, clearly serve to strengthen, rather than weaken, capitalist relations of production (Clarke, 1978, p.18).

Thus:

> "Unions are naturally oriented towards furthering the interests of their own members within the framework of capitalism rather than the interests of the whole class through the abolition of capitalism" (Hinton and Hyman, 1975, p.59).

Management are also likely to encourage sectionalism because it is divisive and helps prevent workers from realising their common interests. Moreover, sectional claims can be more readily contained than radical demands based on class interests.

Trade Union Objectives

Traditionally the rule book of every trade union sets down the aims and objectives of the organisation. These differ between unions, though a common thread running through all is a commitment to improving the terms and conditions of employment of their respective members. Other objectives adopted by trade unions may more closely represent the political and social aspirations of members rather than their everyday pursuits:

> "Unions that came into existence at periods of unrest and social upheaval tended to phrase their objects in socialistic language, while those that were formed in times of peace and prosperity were more likely to adopt the sober language of 'business unionism'" (Milne-Bailey, 1929, p.45).

It is perhaps for these reasons that the Webbs, when writing on the "History of Trade Unionism", did not explicitly describe trade union

objectives, but stated that a union was:

> "a continuous association of wage earners for the purpose of maintaining or improving the conditions of their employment" (S and B Webb, 1894, p.1).

The Webbs instead chose to concentrate their analysis on trade union methods, where they sought to infer what a trade union was from what it actually did.

When the Webbs re-edited their book in 1920 for the Workers' Educational Association, they replaced the word "employment" by the broader term "working lives". This was to placate those critics who felt that the earlier definition presumed the continuation of the capitalist system - an inference denied by the Webbs (Coates and Topham, 1985, p.1).

In the following years a number of other scholars of the Labour Movement have tried to elaborate on the Webbs' definition of the trade unions' central purpose, to take into account: salary earners' and the professions (Milne-Bailey, 1934; Paynter, 1970); to emphasise that the unions' aim is to secure "control of the job" (Perlman, 1949); to demonstrate that the purpose of trade unions is not purely economic, but that through collective bargaining they seek to establish industrial rights for workers (Flanders, 1968a); and to emphasise that trade unionism seeks to establish a "countervailing structure of control" to restrict and to some extent neutralise the dominant position of the employer. According to Hyman (1975):

> "A trade union is, first and foremost, an agency and a medium of power. Its central purpose is to permit workers to exert, collectively, the control over their conditions of employment which they cannot hope to possess as individuals; and to do so largely by compelling the employer to take account, in policy and decision-making, of interests and priorities contrary to his own" (p.64).

The Trades Union Congress in its evidence to the Royal Commission on Trade Unions and Employers' Associations also set out what it believed to be the main objectives of trade unions. These were as follows (though not necessarily in rank order of importance):

(i) improved terms of employment

(ii) improved physical environment at work

(iii) full employment and national prosperity

(iv) security of employment and income

(v) improved social security

(vi) fair shares in national income and wealth

(vii) industrial democracy

(viii) a voice in government

(ix) improved public and social services

(x) public control and planning of industry.

(Trades Union Congress, 1966, p.33)

From this list it would appear that what the TUC believes can be achieved through collective bargaining in a capitalist society is marginal. Indeed the TUC stated in its written evidence to the Donovan Commission that:

> "The objectives which may be pursued are wider than those which can be met by bargaining with employers. There can be no theoretical limit to the scope of advancing and protecting the interests of employed people, and trade union objectives will extend into any field which is of common concern to their members" (p.32).

To a large extent many of the above objectives fall within the realms of traditional socialism, and therefore the unions will have to pursue these goals through other methods, including statutory regulation and political action. Amongst these objectives was the "public control and planning of industry" which the TUC saw as being concerned with:

> "the performance of industries rather than with the details of management of particular firms.....(and).....with ensuring that the great industries of the country are making the best use of their resources and that their policies with regard to prices, investment, and exports.....reflect the needs of the community as a whole" (p.39).

The TUC advocated public control of industry, firstly, as a means of "redressing the balance of private power" and,secondly, on the basis of restructuring and improving the economic performance of an industry. In other industries the TUC believed that public control and planning could be achieved through the workings of the newly created Economic Development Committees.

Union policy therefore appeared to be more concerned with economic performance than with the question of ownership and control. Clearly, the TUC was not prepared to challenge capitalist control of the economy beyond the nationalisation of the major utilities, and other key industries such as coal, steel and the railways which had been starved of investment. Far from advocating "workers' control" of industry, the unions were prepared to accept limited nationalisation, which did not pose a threat to the overall power of investors. Thus:

> "Contemporary trade union action involves coming to terms with the power of capital rather than attempting to overthrow that power: collective bargaining is a process of defensive accomodation to the existing external power structure, and involves the relief or suppression of immediate grievances rather than any attempt to tackle the underlying cause of workers' problems. Therefore the conventional role of trade unionism may be accepted as merely a protective function exercised within the constraints of capitalist domination of the employment contract: collective negotiation may secure better terms for the sale of labour power - but it does not begin to question the acceptability of wage slavery" (Clarke, 1978, p.16).

To achieve a socialist transformation of capitalist society, the unions would need to overcome sectional divisions and to unite behind a common political programme. For this to happen the unions would also have to recognise the political dimensions of their industrial objectives.

Trade Union Methods

The Webbs distinguished three main methods by which trade unions seek to achieve their objectives: Mutual Insurance, Legal Enactment and Collective Bargaining. Other methods used by trade unions include: organisation; education and training; joint consultation; autonomous job regulation and international activities. There is, however, no rigid dividing line between these various methods, and no absolute distinction between methods and objectives (TUC, 1966, p.33). A trade union will adopt that method which it considers most appropriate for the purpose in hand.

Today the two principal methods used by British trade unions are collective bargaining and political action, with the former considered

to be the most important. The Webbs, on the other hand, believed that the method of legal enactment would largely replace collective bargaining. This, however, has not happened largely because of the traditional hostility of the unions towards relying on assistance or intervention by the state, emanating primarily from anti-union legislation and hostile judicial decisions. Thus,

> ".....the state of the law, and how it is moulded by political legislators as well as interpreted by the courts, establishes a framework within which unions shape their objectives and fashion their methods" (Fox, 1985, p.163).

This led to the development of a tradition that has become known as "voluntarism"; where workers believe that they are capable of achieving their objectives through their unions. Flanders (1969) has identified three different principles associated with this tradition:

> "The first expresses a preference for collective bargaining over state regulation as alternative methods of settling wages and working conditions. The second favours keeping industrial disputes out of the courts by preserving our non-legalistic type of collective bargaining. The third principle is an insistence by the bargaining parties on their complete autonomy (the notion of 'free' collective bargaining) which leads them to resent any outside intervention in their affairs" (p.289).

Voluntarism has also encouraged the belief that:

> "political action should be treated as subordinate to industrial action and statutory regulation as inferior to regulation by collective agreement" (p.292).

So long as the system produced industrial peace and fostered good industrial relations, government was prepared to allow it to flourish. The public were not troubled, and the contents of collective agreements were considered to be of no concern to anyone but the parties to the bargain and those they represented.

> "consequently the government's role was largely confined to that of peacemaker, which naturally included the fostering of voluntary arrangements. That it should also act as a pacemaker was categorically rejected on all sides. Its job was to hold the ring, to see the rules of the contest were respected, but otherwise to leave the contestants to fight, or rather to argue, it out" (Flanders, 1965, p.101).

Hyman (1975) detected an alternative reason for keeping the state out of industrial relations:

> "In Britain, 'voluntarism' in industrial relations shared with laissez-faire ideology in general an essentially practical basis: the confidence of employers in their own ability to exercise control without outside assistance. This meant in turn that trade unions should lack either the power or the will to interfere excessively with managerial objectives" (p.135).

The non-intervention by the state in the specifics of collective bargaining simply allowed the more powerful employers to dictate the structure of their relationship with the trade unions. Further, successive governments have established a number of institutions whose prime functions are to assist capital. These include, for example, the Employment Service to help firms to recruit labour, and independent bodies such as ACAS, to arbitrate and mediate during industrial disputes in order to encourage industrial peace and to restore production. Where all else fails, the state can intervene directly by legislating to restrict the right to strike or to picket. As a last resort, the police can be used to break-up picket lines, or the army may be drafted in, under the Emergency Powers Act (1920), to maintain vital services.

The postwar years have witnessed a more pronounced intervention by the state in industrial relations matters, as the British economy became

beset by economic decline. Full employment policies strengthened the bargaining position of the trade unions, while firms began to experience declining profitability. The state reacted by using incomes policies to place restraint on the freedom of bargainers, to hold down wage settlements. From the late sixties onwards, this was coupled with policies aimed at assisting management to regain control over the labour process. In essence, therefore, voluntarism has always been "more apparent than real" (Hyman, 1975, p.137),

Industrial and Political Issues

A key feature of industrial relations in Britain has been the clear separation between "industrial" and "political" issues. Each of these has been seen to require distinctive organisations and strategies, and have been pursued in different arenas. In practice, however, it is often difficult to distinguish which is the more appropriate category. Industrial and political matters are deeply entwined. The difference for the trade unions, therefore, lies primarily in the methods used to arrive at a solution to a problem.

Where an issue is considered to be an "industrial" matter, the trade unions will seek to bring their power and influence to bear on the employer. If no agreement is reached industrial action may follow, which could range from an overtime ban or a work-to-rule to a strike or lockout. A dispute of this nature will remain firmly in the industrial arena, except where essential services are involved or where there is widespread disruption which threatens the "national interest". In these circumstances it may become the subject of a parliamentary debate, but

direct government intervention would normally only be considered as a last resort. On the other hand, when trade unions engage in "political" methods they bring their power and influence to bear on political parties or government.

As we noted earlier, these categories are not mutually exclusive. It may happen that an issue is considered at first to be an industrial matter, but later it may enter the realm of politics. On occasions, an issue may be both an industrial as well as a political matter. We can take as an example the case of redundancy. The terms and the accompanying financial compensation were regarded, initially, as a matter to be decided by management and unions. Later government passed the Redundancy Payments Act (1965), which provided workers with a legal right to financial compensation when dismissed for economic reasons. Alternatively, a situation may arise where the workforce refuses to negotiate with management, and instead decides to resist the planned job losses by occupying their factory. A relatively obscure local issue may then attract national news coverage and develop into a major political issue, as in the case of the Upper Clyde Shipbuilders (McGill, 1973).

We must also take into consideration that over time prevailing views change, so that issues once considered political may later be classified as industrial and vice-versa. Over the postwar years the distinction between the two categories has become increasingly blurred, as successive governments have taken a more interventionist role to steer the direction of the economy. The actions of government in pursuing these policies - to control inflation and to maintain profitable economic growth - have a direct bearing on the industrial

context within which management and the unions have to operate. If the government embarks on a tight fiscal and monetary policy to control inflation, this may result in a reduction in output and hence lead to an increase in unemployment. Conversely, government may try to use instruments of regional policy to influence the location of industry, which will also have a direct impact on employment and wage rates in local labour markets. Thus, the trade unions feel the need to have an input into the process of political decision-making to affect these issues at the industrial level.

After the Second World War, there seemed to be an unwritten agreement between the trade unions, the employers and the political parties, that industrial issues should be handled by industrial methods. Consequently,

> ".....when they have a choice, trade unions invariably prefer to rely on industrial rather than political methods to achieve their aims.....they are prepared to use political methods to support and to supplement their industrial methods, but never to supplant them.....trade unions derive their membership sanctions, in other words satisfy this institutional need, primarily through their industrial activities.
>
> .....as a minimum, trade unions must be involved in politics in order to establish and maintain the legal and economic conditions in which they can flourish. That is the lower limit imposed on their political aims by their institutional needs.....there is also a maximum, an upper limit to the aims they can follow in politics, which is also set by their institutional needs. They cannot, for example, adopt political aims which would seriously threaten their industrial unity.....When political divisions within a trade union become too acute and occupy too much attention, the result is paralysis and possibly disruption" (Flanders, 1961a, pp.26-31).

Mann (1973) is critical of this division between industrial and political action, which he attributes to the dominant ideology of

capitalism. As part of this "conditioning", trade unions have come to accept that they should not use industrial weapons, for example, strikes, to pursue political ends which should remain the exclusive domain of parliament. Trade union leaders may have reasoned that to break with this convention might provoke government to retaliate by enacting legislation or by using coercion to restrict trade union rights.

The Labour Party has likewise been keen to maintain this separation in the belief that it would be politically damaging to its image as a national party if it were seen to be siding with the trade unions in the event of an industrial dispute.

However, by this limitation on the use of their industrial methods, trade unions have effectively restricted their ability to achieve their political objectives. Moreoever, not only has political action been separated from industrial action, but the latter has also been sub-divided into two subordinate and distinct spheres: the economic and job control spheres. The former is concerned with the pursuit of financial improvements within the existing structure of industry. Whilst through job regulation the union seeks to establish rules jointly with management to enable the worker to exert control over an agreed area of work.

A trade union has been described as "a political agency operating in an economic environment" (Ross, 1948, p.306). Unions find it easier to obtain higher wages for their members, as part of their share of the total income generated by the firm, than to win concessions from

management on issues of job control. This is because there is only a fixed amount of work available for distribution, and one party can only increase its area of control at the expense of the other. Management are therefore more likely to compromise on economic issues than on the prerogative of control. Hence, union action is rarely oriented towards increasing job control. On the contrary, because unions are organised towards achieving economic bargaining gains, they have often been prepared to relinquish shopfloor controls, established informally or surreptitiously, in return for higher economic rewards.

Mann (1973) has argued, on the other hand, that if workers possessed full class consciousness, they would seek amongst their goals worker control of industry and society. This would in theory enable them to attain both "material and moral fulfilment, economic sufficiency and freedom of self expression" (p.295). However, unions have not pursued this goal with any conviction. Mann contends that their failure to do so has been counter-productive to the interests on the working class:

> "Hence, to the extent that trade unions pursue economic and job-control issues separately and the latter defensively, and to the extent that they do not pursue wider issues of work control, they operate to weaken workers' class consciousness" (p.298).

In other words, the sectional economistic pursuits of trade unions reduces the class nature of the conflict, and inhibits unions from translating their industrial objectives into general political demands. Similarly, collective bargaining, by its very structure, encourages sectional interests and operates as an institution to channel and control industrial conflict.

Radical Objectives

The Webbs (1920), by contrast, believed that the growth and development of trade unionism would ultimately lead to the overthrow of capitalism:

> "the object and purpose of the workers, organised vocationally in Trade Unions.....is no mere increase of wages or reduction of hours. It comprises nothing less than a reconstruction of society, by the elimination, from the nation's industries and services, of the Capitalist Profit maker" (p.717).

The radical aspirations concerning the issues of power, control, and social accountability are embodied in the rule books of most trade unions. A key commitment in the TGWU's rule book is the need:

> "to endeavour by all means in their power to control the industries in which all their members are engaged" (quoted from Milne-Bailey, 1929, p.61).

The first aim of the AUEW is:

> "the control of industry in the interests of the community" (Ibid, p.58).

Whilst the Durham Miners' Association has as one of its objects:

> "To seek the abolition of capitalism and the substitution of common ownership and control of the means of livelihood" (Ibid, p.64).

These objectives clearly lie beyond the narrow confines of collective bargaining, being achievable only by the overthrow of the capitalist system. A number of the early socialist theorists, however, held that the trade

unions through their activities can contribute to a revolutionary change in the nature of society:

> "Strikes.....are the military school of the working-men in which they prepare themselves for the great struggle that cannot be avoided; they are the pronunciamentors of single branches of industry that these too have joined the labour movement.....And as schools of war, the unions are unexcelled" (Engels, 1978, p.40).

Lenin (1973), on the other hand, stated that:

> "Trade-unionist politics of the working class is precisely bourgeois politics of the working class....." (p.83).

He argued that the central tenets of trade union consciousness were sectionalism and economism. By economism, Lenin included not only the pursuit of improvements in wages and conditions, but also union activity at the political level aimed at winning concessions for labour. To Lenin, trade union politics was simply an attempt to reduce the rate of exploitation of the working class, but not to abolish its subjugation to capital. By concentrating on economic issues, together with their narrow economic base, Lenin held that the unions were incapable of developing a revolutionary class consciousness, and were therefore incapable of being more than reformist institutions.

To go beyond this stage and develop class consciousness, Lenin stressed that the working class would necessarily depend upon the bourgeois intelligentsia to instruct them in socialist theory. Only the revolutionary party could act as the vanguard of the working class to lead them in the overthrow of capitalism, because trade unions are able to achieve their economic objectives under capitalism and therefore become integrated into the system.

Anderson (1967) also notes that trade unions are an essential part of capitalist society, because they reflect the division between capital and labour.

> "(a)s institutions, trade unions do not challenge the existence of society based on a division of classes, they merely express it. Thus trade unions can never be viable vehicles of advance towards socialism in themselves; by their nature they are tied to capitalism. They can bargain within the society, but not transform it" (pp.264-5).

Only a revolutionary party, Anderson asserts, can overthrow capitalism:

> "Trade unions represent only the working class. A revolutionary movement - a party - requires more than this: it must include intellectuals and petit bourgeois who alone can provide the essential theory of socialism.....Culture in capitalist society is in this sense a prerogative of a privileged strata: only if some members of these strata go over to the cause of the working class can a revolutionary movement be born. For without a revolutionary theory, there can be no revolutionary movement. Trade unions represent too limited a sociological base for a socialist movement. By themselves they inevitably produce a corporate consciousness" (pp.266-7).

While it is undeniably true that trade unions cannot perform the same function and purpose as a political party, be it revolutionary or democratic socialist, it is equally true that the unions do not regard themselves as revolutionary bodies, much to the chagrin of a number of socialist intellectuals. As Perlman (1949) put it:

> "Trade unionism, which is essentially pragmatic, struggles constantly, not only against the employers for an enlarged opportunity measured in income, security, and liberty in the shop and industry, but struggles also, whether consciously or unconsciously, actively or merely passively, against the intellectual who would frame its programs and shape its policies" (p.5).

Flanders (1969) similarly described trade unions as:

> ".....singularly pragmatic bodies, deeply distrusting theories and ideologies" (p.280).

The reasons why the Labour Movement has pursued reform in preference to structual change is not difficult to understand. As we noted earlier, workers join unions to improve their standard of living, which they are able to achieve under capitalism. Few workers take up union membership because they see trade unions "as an agency for transforming the social structure" (Goldthorpe et al, 1968, p.28). This is not to deny that some trade union activists are Marxists, or that on occasions Marxism forms part of the Labour Movement's rhetoric. Nevertheless, as long as unions are able to win economic gains for their members, workers are more likely to choose reform. To mobilise industrial strength to directly confront capitalism raises too many uncertainties. The likelihood of success and the possible gains have to be weighed against the potential losses arising from defeat, and so far "no general strike has ever been successful" (Anderson, 1967, p.266).

Insecurity and uncertainty about the future strongly influences the outlook of workers. It is for these reasons that trade unions are unwilling to negotiate on the basis of long-term benefits, but prefer to achieve immediate material rewards. From this it is easy to understand why workers are fearful of change. New developments introduce unknown elements which, based on this rationale, are likely to make them worse-off. Consequently, Crouch (1982) observed that:

> ".....workers' actions will usually be incremental, concerned with short-time advantage within known parameters, it is not surprising that they rarely follow a revolutionary path" (p.131).

He goes on to explain why this is so:

> "As soon as workers acquire some power, capital makes concessions to them; and given workers' incremental approach, they take the concessions, with the result that their pattern of demands and gains follows the contours of the concessions which capital is able and willing to make - not that of the points which might overthrow capitalism. And given the tendency for unions to resolve their problems of uncertain information about the labour market by clinging to actions familiar to them, they gradually become wedded to that pattern as their own. In this way the labour movements of the advanced capitalist societies have moulded themselves around their various capitals and have reached accommodations with them. Revolutionary strategies are likely to predominate only where capital makes no concessions and presents a front of total resistance - a characteristic unlikely to be displayed by capitalism and more frequently found in autocratic pre-capitalist regimes" (Ibid).

A number of other explanations have been advanced to explain the lack of revolutionary zeal among organised workers. A common theme is to blame the union leadership for imposing a restraining influence on their membership in order to control their militant aspirations (Clarke, 1978). Clements (1978) also suggests that union leadership has been more explicitly reformist than the rank-and-file. Ideological constraints and integrative pressures on the union bureaucracy have ensured that at this level the unions have not become "radical politically conscious organizations" (p.325). Instead the union leadership has been prepared to accept a politically subordinate role to the Labour Party, which has not been prepared to attempt to fundamentally alter capitalist society. By definition, without a radical political frame of reference, the aspirations of the working-class will continue to be restricted to seeking marginal improvements. In this respect, industrially and politically, "macro-level trade union consciousness reflects the limited sectionalism of the micro-level" (p.324).

Paradoxically, however, whilst sectionalism limits workers' perceptions, shopfloor militancy may, in certain circumstances, lead to an expansion of workers' consciousness. Mann (1973) contends that in times of intense industrial conflict (e.g. the industrial unrest in France in May-June 1968 or the Miners' strike in Britain in 1972), workers have rejected their subordinate position as wage labour. This may result in the transformation of their consciousness, or their rejection of individual calculation in favour of collectivism. However, this has not led to revolution, because workers have rarely been able to extend their consciousness beyond collective solidarity to conceive of an alternative socialist society. Mann describes this division between the two acts as "a crucial watershed in contemporary class consciousness" (p.301). Clearly, what has been missing is a coherent ideology to enable workers to link economic and political issues. But,

> "(w)hether trade unions as institutions can provide the ideology to ensure successful transition is, in the light of historical experience, highly unlikely" (Clements, 1978, p.329).

Trade unions are therefore left to effect only marginal improvements in the well-being of their members. As we saw earlier, disputes tend to centre on wages and conditions, union recognition, and similar matters. At times, shop floor militancy has been sufficiently disruptive to encourage companies to introduce new managerial techniques including productivity bargaining, job evaluation and measured day work. Government has also intervened to assist management by implementing incomes policies and industrial relations leglislation. But on the whole, trade union action has not posed a direct threat to the basic fundamentals of the capitalist system, such as the private ownership of

property, the extreme division of labour, the hierarchial structure of society and business organisations, the large differences in financial rewards, and so on. The unions have likewise made little effort to seek joint determination of key management decisions covering investment, expansion, and market opportunities.

Why do the trade unions not challenge management on all of these issues which clearly have a direct bearing on the interests and prospects of the workforce? A key reason is because, so long as the unions are prepared to operate within the existing economic and political framework, they are able to muster sufficient economic power, and enjoy the support of the state and other sections of society, to legitimately challenge management on this limited range of issues. However, to successfully step outside this framework, and to confront management on issues that lay at the heart of their authority, privilege and values, would entail a large mobilisation of labour power. Faced with a direct challenge of this kind, the employers would probably mobilise the support of friendly organisations and sympathetic sections of society and, ultimately, the power of the state. The trade unions have, therefore, to consider the likely response of management and other vested interests when they formulate their objectives:

> "For the more ambitious and extensive a union's objectives, the more likely are the politically and socially powerful to express their hostility through acts of repression. Conversely, if it curbs those objectives which seriously threaten the status quo it may be able to win the acquiescence and even goodwill of employers and the state. Historically, unions which have become firmly established have been drawn inexorably towards policies which are relatively acceptable to these significant others. Thus it is rare indeed for trade union commitment to major social change to be an operational one, in the sense of influencing

> day-to-day industrial tactics or serious long-term strategies: the socialist attachments of British unions are in general confined to the rhetoric of rule-book preambles and conference speeches. Similar pressures normally affect industrial policies in such manner that interference with managerial control does not go 'too far', while economic demands are characterised by 'moderation'. Evidently, then, the central role of collective bargaining in union policy should be interpreted as an accommodation to external power" (Hyman, 1975, pp.88-9).

Capitalism does not, however, have to rely solely on the threat of coercion to ensure that trade unions confine their aspirations to what is "acceptable". If it were to rely entirely on the threat of force, then ultimately it could promote a similar reaction from among the working class. A more potent and effective means of controlling the objectives of the unions is the process of socialisation. As Allen (1966) has explained:

> "It is not possible for unions which arose in opposition to the dominant effects of capitalism to operate within the system as permanent bodies without taking on some of the characteristics of the system itself" (p.24).

This acts in the case of collective bargaining,

> ".....by containing negotiations within limits which are set more by employers' expectations than ethical considerations concerning the distribution of income or estimates of what the market can bear. The demands which unions make are based on a concept of fairness which is conditioned by what employers, by and large, are prepared to concede. In so far as unions aim beyond this it is usually as a bargaining tactic rather than a wholesome desire for something out of the ordinary. In short, the aspirations of employees are closely linked to what is immediately realizable" (p.29).

Ideological and social conditioning affect all aspects of workers' lives. From childhood working people are brought up to respect and obey rules and to accept directions from other people. Similarly in the factory, workers learn to distinguish between those issues where they

can legitimately challenge management authority, and those where they are expected to conform and obey. If a worker steps outside this consensus he will be told in no uncertain terms, by both shop stewards and management, that his actions are unacceptable. In this way the trade unions, along with other institutions, condition workers to accept a subordinate role in society (Fox, 1985, p.54).

The ideological legitimation of capitalism is conducted through a multitude of agencies, embracing the media, educational institutions and religious organisations (Miliband, 1969). Through these agencies capitalism is able to set the tone of what is acceptable and what is unacceptable. For example, trade unions are frequently portrayed as being "irresponsible"; similarly nationalisation is presented as being "bad" for the country. Whilst private acquisitiveness is often used as a measure of happiness and success. These ideological pressures inevitably influence how workers view their position and role in society and, of course, their aspirations. Workers, therefore, find themselves in the position where they are constrained and encouraged to put forward only what is socially acceptable. In these circumstances, it is impossible for employees to demand workers' control of industry, without it sounding "silly". As Hyman (1975) observed:

> "The 'vocabulary of motives' available to employees - the socially acceptable justifications which can mobilise their own actions and influence the responses of others - imposes serious limitations on their goals and strategies" (pp.146-7).

Allan Fox (1974) described how this operates in practice:

> "Power and social conditioning cause the employee interests to accept management's shaping of the main structure long before they reach the negotiating table. Thus the discussion may be about marginal adjustments in hierarchical rewards, but not the principle of hierarchical rewards; about certain practical issues connected with the prevailing extreme subdivision of labour, but not the principle of extreme subdivision of labour; about financial (extrinsic) rewards for greater efficiency, but not about the possibility of other types of (intrinsic) rewards with some sacrifice of efficiency; about measures which may achieve company expansion and growth but not about the principle of company expansion and growth; about how the participant interests can protect and advance themselves within the stucture operated by management to pursue its basic objectives, but not about the nature of basic objectives" (p.286).

Trade union officials are particularly vulnerable to these external pressure which serve to domesticate the goals of trade unionism. For, on the one hand, he is concerned to enhance the security and stability of the trade union as an organisation, while on the other, he is engaged in regular negotiations and dealings with senior management. One of consequences of this is that the union official will be keen to preserve a good bargaining relationship with the employer. He is unlikely to welcome any militant action which may damage this relationship. Thus, Hyman (1975) described the main function of the union official as:

> ".....the negotiation and renegotiation of order within constraints set by a capitalist economy and a capitalist state" (p.91).

Hence, if

> "..,..the union official sees orderly industrial relations as essential for stable bargaining relationships with employers and ultimately for union security, his viewpoint in many respects parallels that of management....Job control, as it primarily concerns the 'union-as-an-organisation'....is

> therefore concerned more with stabilising the detail of the relationship between labour and capital than with conducting a struggle against the domination of capital. Such control may thus involve the suppression of irregular and disruptive activities by the rank and file which challenge managerial control. In this way, union control and workers' control may face in opposite directions....." (Ibid).

Collective Bargaining

Pluralists and radicals would probably agree that collective bargaining is the most important of trade union methods. However, whilst some pluralists have equated collective bargaining with industrial democracy (Clegg, 1960), radicals see it as a process that delivers only marginal improvements to workers without directly challenging the system that perpetuates their subordination.

Allan Flanders is recognised as a leading pluralist academic. In his view, collective bargaining is the raison d'etre of trade unions:

> "All the other activities which the trade unions have undertaken and all the other purposes they have acquired must be regarded as a by-product and auxiliary to this their major activity and purpose since success in it has been the condition for their survival and the basis of their growth" (1968b, p.75).

Flanders (1968a) argued that through collective bargaining the trade unions fulfil their underlying social purpose, that of "participation in job regulation" (p.42). Both the Webbs and Flanders saw collective bargaining as a rule-making process. The Webbs (1902) wrote that the objectives of the trade unions

> "can be reduced to two economic devices: restriction of numbers and the common rule" (p.73).

The common rule encompassed collectively agreed norms covering the terms and conditions of employment of a group of workers. The Webbs saw the extension of common rules across each trade and industry as a means of restricting competition in labour markets; thereby preventing wages being undercut when the supply of labour exceeded demand. Similarly, when the reverse was the case, employers would no longer have to bid against each other for scarce labour.

For Flanders, collective bargaining served two great social purposes: firstly, providing protection for the employee and; secondly, allowing him to participate in how these rules are made - thus enabling him to gain more control over his working life. These rules may be unilaterally imposed, jointly agreed between management and unions or result from tripartite discussions involving government. The rules established are of two kinds: procedural or substantive. Procedural rules define the status and relationship between any of the parties participating in job regulation, for example, disputes procedures, union recognition agreements. Substantive rules settle the status and rewards of jobs, including wage rates, hours of work, and other conditions of employment. In other words, the procedural rules of collective bargaining regulate the making, interpretation and enforcement of its substantive rules, while the latter regulates jobs.

Within this agreed set of rules the trade unions pursue a range of objectives. These may include higher wages, a shorter working week, increases in manning levels, improvements in working conditions, less supervisory control and so on. Clearly, not all of these goals can be achieved simultaneously. Union negotiators may, for example, have to

make a choice between pursuing increases in wage rates or pressing for a reduction in the working week. A similar choice may have to be made between increasing staffing levels or expanding overtime working practices. On occasions the union may have to decide whether to use industrial action to achieve a desired objective. This introduces a great deal of uncertainty into the negotiations because the workforce is not always able to accurately predict management's resolution. Past experience of management behaviour will, however, provide guidance. The shop stewards will normally be fully aware of the likelihood of success in pursuing a particular course of action, and they will be reluctant to waste time pressing for a particular objective that they know management will be unwilling to concede. The unions may find it preferable to bide their time until circumstances are more favourable. In this way a particular bargaining pattern may be established, where management and unions become acquainted with what is acceptable and unacceptable to the other side.

As well as pursuing substantive objectives, workers also seek procedural goals. That is, workers seek the right to control, to jointly determine, or to bargain over issues that arise at work. These procedural objectives may range from seeking control over the speed of machines to the joint determination of investment decisions. A procedural objective is, therefore,

> "....a goal concerned with control over work rather than returns from work" (Crouch, 1982, p.150).

Thus, workers seek these goals, not because they are proposing to overthrow capitalism, but because it will put them in a far stronger position to secure their substantive objectives. It is a means of guaranteeing security and assurance along with material gains. For example, if workers are able to control the speed of their machines, they can determine the level of output and, from this, the amount of overtime working that will be required to meet existing orders. The shop stewards may also try and ensure that it is they and not management that decides on the allocation of any overtime working. At one time the craft unions enjoyed the right of unilateral control, free from any managerial interference in job regulation. Today, this has largely been eroded, with only the "professions", and to a lesser extent the printing unions, still enjoying this control. Some semi-skilled workers in the engineering industry are also able to exert a degree of control, so that management in unable to make unilateral decisions on manning levels, work-speeds, and so on, without first entering into detailed negotiations with the unions.

A trade union may find itself in the position of having to choose betwen a substantive objective and a procedural one. This could arise, for example, during negotiations over productivity bargaining, where workers may be persuaded to surrender some of their job controls, including restrictive and other work practices, in return for increases in wage rates. Management may see this as a preferable way of winning back control of the job process, as opposed to engaging in direct confrontation with the labour-force. The dilemma for workers is whether management will use its new found strength to erode the real value of these wage increases at some time in the future. If they believe that

this is indeed management's intention, then they may decide to resist all proposed changes. But even this strategy is not without its pitfalls. Workers may come to realise that to maintain existing work practices will contribute to an erosion of competitiveness, which will eventually result in the loss of jobs. Similarly, increases in productivity and efficiency, particularly in stagnant markets, may also lead to job displacement.

The choice facing trade unionists are clearly never easy ones. Fear of the unknown and the unexpected help to condition the defensive position often adopted by the trade unions. Even when the unions try to take a more assertive approach to policy goals, their stance has been described by Crouch (1982) as:

> ".....cautious, unadventurous, occasionally taking an aggressive plunge forward where it seems something can safely be achieved. And it is an approach which suits the logic of workers' situation: many of the factors determining their environment are unknown to them; much has to be taken on trust; their position is, always, one of subordination to capital and fear of bumping against a rigorous demand curve for labour" (p.138).

To sum up, the rules and procedures, arrived at by mutual agreement, perform a dual purpose, in that they help to legitimate management authority while at the same time restricting the potential goals of trade unions. Trade union strategy within this context is limited to pursuing objectives that are broadly "acceptable" to management. To do otherwise would ultimately involve a direct political challenge to capitalism. Collective bargaining may therefore be more aptly described by a radical as

> ".....a process by which the rank-and-file, inferior in power, status, and treatment, are allowed to press for marginal improvements in their lot on condition that they leave unchallenged those structural features of the system which perpetuates their inferiority" (Fox, 1974, p.143).

Internal and External Job Regulation

Flanders also drew a distinction between what he termed internal and external job regulation. The former are rules developed within the company by shop stewards, either separately or jointly with management. These may include a factory wage structure, or internal procedures for joint consultation or for dealing with grievances. The latter encompasses those rules which impinge upon internal rule- making, such as protective labour legislation, and the rules of trade unions or employers' associations.

The driving force behind the development of external job regulation were the trade unions, who sought to impose constraints on the actions of employers, so as to protect the workforce from the worst exigencies of capitalism. These rules were introduced to fix minimum rates of pay, to control working hours, and to improve working conditions. Hence, the Webbs (1902) saw the "fundamental object" of trade unionism as:

> "the deliberate regulation of the conditions of employment in such a way as to ward off from the manual-working producers the evil effects of industrial competition" (p.807).

In addition to collective bargaining there are five other methods of external job regulation: unilateral regulation by unions or by employers' associations; tripartite regulation, for example, Wages Councils, involving independent or public representatives as well as

trade unions and employers; state regulation by statute or common law; and social regulation by custom and convention.

The driving force behind the development of systems of internal job regulation, in contrast, has come from management seeking greater control over the work of their employees. This can be associated with the growth in size of business organisations, and the wider application of the techniques of scientific management.

Criticisms of Job Regulation

Hyman (1975) is critical of this emphasis by pluralists on the institutions of job regulation, though he admits that much of what Flanders (and also Dunlop) has written is unassailable. This is because

> "(r)ules of various kinds clearly do pervade the world of work and employment, and the institutions which devise and implement this network of rules are of central importance for the study of industrial relations" (p.11).

Hyman's main objections to the definition of union purpose and the subject matter of industrial relations in terms of job regulation are stated below:

> "The implication is that what industrial relations is all about is the maintenance of stability and regularity in industry. The focus is on how any conflict is contained and controlled, rather than on the processes through which disagreements and disputes are generated. From this perspective, the question whether the existing structure of ownership and control in industry is an inevitable source of conflict is dismissed as external to the study of industrial relations - which must be concerned solely with how employers, trade unions and other institutions cope with such conflict. Thus to accept the definition of industrial relations as job regulation is to share the traditional

> concern of conservative sociologists with the 'problem of order': the interest is in how existing patterns of social relations are stabilised, rather than the significance in their own right of challenges to the prevailing social structure.
>
> This conservative tendency is reinforced when the notion of an industrial relations system is used to suggest that processes are naturally at work to maintain stability and equilibrium; that the various institutions and procedures are compatible and well integrated; and that conflict is therefore largely self-correcting" (Ibid).

Hyman instead seeks to broaden the emphasis on job regulation to take into account the "process of control over work relations" (p.12). In his view, if trade union purpose was restricted to job regulation, then union objectives would be extremely narrow and uncontroversial, and their role would be reduced to no more than protecting members from the worst excesses of capitalism. Hyman has summarised the implications of this view of trade unionism:

> "If unions have to accept the capitalist arrangements of industry - the structure of ownership, of economic priorities and of managerial authority - then they can expect to provide no more than a limited range of improvements in the worker's situation. The reasonable member, in turn, will view his union as no more than a fairly narrow service agency; so long as it delivers the goods he has no cause to worry about its internal government. It would be as pointless to tell his full-time official how he should go about his job as it would be to tell his greengrocer" (p.85).

Hyman rejects this limited view of trade union objectives, and insists that trade union purposes

> "must be defined in terms of the members' own aspirations" (p.84).

Flanders did in fact recognise that trade unions do have wider social and political purposes, but they could not be easily incorporated within his framework of job regulation. Flanders (1961b) asserted that trade unions have always had two faces: "sword of justice and vested interest" (p.15). He argued that if the unions were to operate more or less as "business" unions, there was a danger that they would end up losing the loyalty and self-sacrifice of their members, which are the foundations of the movement's "strength and vitality". This would render the trade unions very vulnerable to any concerted attack from a hostile government or from the employers. More so, if, because of their actions, the unions were unable to appeal to the wider community for support. Flanders, therefore, suggested that the unions need to achieve a balance between pursuing the narrow economic interests of their respective members, and kindling the spirit of idealism in their quest to change society in the interests of working people.

Trade Unions and Income Distribution

If trade unions are committed to collective bargaining because they see it as the main method of improving the wages and conditions of employment of their members, then it is essential to see how successful they have been in achieving this goal. However, Flanders (1968c) has further argued that trade unions are not solely bargaining agents. If people join unions simply for economic rewards, then they are "unusually prone to self-deception". Instead he suggested that:

> "the value of a union to its members lies less in its economic achievements than in its capacity to protect their dignity" (p.239).

Fox (1975), however, though he accepts much of what Flanders says, has pointed out that:

> ".....it is as a bargaining agent that the union finds its major justification in the eyes of its members and that issues relating to financial reward are still, whether for material or symbolic reasons or both, among its major bargaining preoccupations" (p.171).

The living standards of trade union members can be improved in two ways. Firstly, they could benefit along with everyone else from technological advances which increase the growth in the size of national income as a whole. In this instance the relative share of national income will remain unchanged. A second way is for the trade unions to effect a redistribution of income away from capital. This can be achieved by a sustained increase in real wages through collective bargaining.

In a capitalist economy workers forgo potential income to provide the profits and interest required to induce the owners of property to part with their capital. The ability of the trade unions to increase labour's share of national income depends therefore upon whether they can reduce capitalist consumption without endangering job creating investment. However, in 1939 Keynes wrote that:

> "the stability of the proportion of the national dividend accruing to labour is one of the most surprising yet best established facts in the whole range of economic statistics" (quoted in Burkitt and Bowers, 1979, pp.60-1).

This assertion has been qualified by a number of studies which have suggested that, through wage increases, the unions have been able intermittently, to increase labour's share of national income (Phelps

Brown, 1957; Glyn and Sutcliffe, 1972; Robinson and Eatwell, 1973). These studies show that short-run changes in factor shares may have been due to union activity, however, long-run changes are attributed to structural and secular trends.

Table 2.1 shows the long-run trend in the distribution of income between labour (wages and salaries) and property, with the income of the self-employed imputed 75% to 25% between labour and property. Up to 1910

Table 2.1 The Distribution of Income between Labour and Property in the UK, 1910-76 (annual averages)

	% of gross national produt		% of gross domestic product	
Year	Labour	Property	Labour	Property
1910-14	55.3	44.7	60.2	39.8
1921-24	67.4	32.6	70.6	29.4
1925-29	66.4	33.6	70.5	29.5
1930-34	68.1	31.9	71.1	28.9
1935-38	67.1	32.9	70.0	30.0
1946-49	73.0	27.0	74.3	25.7
1950-54	72.1	27.9	73.7	26.3
1955-59	73.4	26.6	74.4	25.6
1960-63	73.6	26.4	74.5	25.5
1964-68	73.6	26.4	74.4	25.6
1969-73	75.6	24.4	76.6	23.4
1974	78.1	21.9	79.4	20.6
1975	80.2	19.8	81.0	19.0
1976	78.3	21.7	78.3	21.7

Source: Burkitt and Bowers, 1979, p.62, table 5.2

no major changes took place in the distribution of income between labour and property. Between 1910 and 1976, however, labour's share increased from 55.3% to 78.3%, with this shift concentrated in three periods: 1910-14 to 1921-24; 1935-38 to 1946-49; and from 1968 to 1975.

According to Burkitt and Bowers (1979):

> ".....the weight of evidence refutes the hypothesis of a long-run constancy in relative shares when the overall labour share rather than that of wages is the variable studied" (pp.65-6).

Owen-Smith (1975) has put forward five reasons to account for the increase in labour's share since the turn of the century. Firstly, the supply of capital, and hence the capital/labour ratio, has increased and the effect of this capital substitution has been to lower capital productivity and, therefore, its share of national income. Secondly, self-employment in agriculture and small business has declined, resulting in an increase in wage earners. This would allow the share of labour relative to capital to increase, even though income per employee remained constant. Thirdly, technological change has stimulated a greater demand for labour. Fourthly, the skill level of labour has increased more rapidly than the quality of capital. Fifthly, and "more controversial", the rise of trade unions.

It is possible that the first four factors may have had some impact upon income distribution. As to the fifth suggestion, Phelps Brown (1957) has expressed doubts as to whether trade union power is a sufficient explanation of changes in factor share. To explain relative changes in factor shares, he examined the interaction between trade union power and the market environment. When any increases in costs can be passed on to the consumer in higher prices, the market is "soft"; when the converse is the case because of competitive forces, the market is "hard". In the former case, a rise in wages will leave distributive shares unaltered because wages and prices increase in tandem, resulting

in an inflationary spiral. In the latter case, if trade unions are able to raise the level of wages, it will be at the expense of property, because the ability to pass on increased costs to the consumer in the form of higher prices will be restricted. The implications of this analysis are that factor shares will remain unchanged in soft markets with strong unions, or in hard markets with weak unions. On the other hand, there will be a redistribution towards labour when there is a combination of a hard market environment and strong unions, and a shift towards property when markets are soft and unions are weak.

When Burkitt and Bowers (1979) applied this analysis to the three periods in question, they found that other factors besides trade union power and a hard market environment were responsible for the increase in labour's share. In the first period, they found that the increase in unionisation and, therefore strength, was extremely important but alone not a sufficient means - union membership increased to twice the pre-war number. After the First World War, the unions sought to resist wage cuts during the deflationary period that followed. Here they met with some success which enabled them "to delay these reductions and often to diminish them" (pp.68-9). Prices, therefore, fell more rapidly than money wages, causing profits' share to be squeezed by the deflationary market conditions and trade union endeavours to maintain wage levels. Other factors also played their part. The proportion of income generated by agriculture, where labour's share was low, declined; whereas that generated by the public services, where labour's share was high, rose. Meanwhile, self-employement fell while skilled employment expanded. The share of rent also fell due to war-time inflation and legislative controls on rent. They therefore concluded that:

> ".....the rise in labour's share during and immediately after the First World War occurred in response to a number of factors, of which the growth in union strength would appear to have been a necessary but not a sufficient condition" (p.69).

During the second period, the impact of war led to a very high demand for labour and the elimination of unemployment. Rationing, accompanied by price and rent controls, led to wages rising faster than incomes from property. Between 1938 and 1947, average wages rose by 18%, while the average income from property fell by 15%. Over this period, unionisation increased from 29.8% to 44.4%. Although the war produced an inflationary climate, stringent price controls limited the cost increases that could be passed on to the public, which ensured that prices only increased by 6% between 1942 and 1945. At the same time, the steep increase in total money income led to a drop in the real value of rents, which were stringently controlled.

> "Again, the growth of union strength in this period appears to have been at least a permissive influence enabling the rise in labour's share to occur" (p.70).

The profit squeeze in the third period can be partly attributed to union strength, as membership started to increase in the late 1960s. Property incomes were squeezed between intense international competition and trade union pressure on wage costs.

> "The cause lay in further deterioration in competitiveness. Continued slow productivity growth relative to competitors abroad compelled capitalists to hold the rate at which prices rose below that of costs (primarily wages) in an attempt to retain markets. Profits suffered as a consequence.

> But paring down profit margins was not enough to prevent a serious loss of markets. The UK's share of world exports fell and import penetration rose. The loss of markets in a context of continued steady accumulation provoked accelerated scrapping. Unemployment followed" (Glyn and Harrison, 1980, p.53).

Once again the evidence would suggest that the growth of union power, brought about by the postwar period of full employment, is not the sole explanation of the increase in labour's share. A major contributory factor was the fierce increase in international competition. The decline in labour's share from the late 1970s was probably precipitated by government policies aimed at protecting profit margins, essentially by holding down real wages. This was achieved through a variety of policies, including controls on wages, switching the burden of taxation from capital to labour and by allowing the exchange rate to float downwards; thereby reducing real wages by raising import prices and hence the price of consumer goods.

Thus, when attempts were made to raise profit's share through a fall in real wages, the presence of strong trade unions could have been vital to protecting labour's share. Yet all the available evidence reveals that the unions had only a limited success, and that union resistance was usually manifested in an outbreak of wages disputes, leading swiftly afterwards to price increases.

In short, although the trade unions may believe that they have successfully raised labour's share at the expense of property, research shows that the increase was concentrated into three periods and that

union activity was not clearly the decisive influence. This led Mulvey (1978) to conclude that:

> "unions probably have no appreciable influence on the long-run distribution of factor incomes, although because of imperfect adjustment, they may influence income distribution in the short-term" (p.140).

Considerable doubt must therefore be expressed about the ability of the unions to permanently raise labour's share whilst the ownership of property lies in private hands. Declining property incomes may lead to a reduction in capital accumulation and employment. Therefore, labour's share can only be permanently protected through the abolition of the private ownership of capital. As Burkitt and Bowers (1979) put it:

> "The essential prerequisite for trade unions to achieve their aim of raising labour's share to the maximum consistent with the maintenance of the long-run wage level is the socialisation of investment funds and the corresponding public ownership of the means of production" (p.66).

If these changes were brought about, the state would be left in the position of having to decide, after consultation with the trade unions and other interest groups, what proportion of national income would be set aside for consumption and for capital expenditure. This would enable labour's share to achieve its potential maximum, consistent with the long-run maintenance and growth of national income, because property incomes or profit would no longer be necessary to satisfy capitalist consumption. These funds would then be available to finance capital expenditure and to raise wage levels.

We must remember, however, that workers do not join trade unions in the belief that the share of labour in national income will be increased. They do so because they believe that their own personal circumstances will be improved through collective action. One way of testing to see if these aspirations are justified is to measure the extent to which unions have been able to raise the level of their members' wages above that which would have prevailed in the absence of unionisation. Since it is virtually impossible to say with any accuracy what this would have been, researchers have typically compared the level and movement of wages of unionised workers with comparable groups of un-organised workers.

Phelps Brown (1962) suggested two particular situations where trade unions are able to increase the relative wages of their members. The first is when trade unions are formed and they are able to obtain a once-for-all advantage over non-unionised labour; "the impact effect". The newly unionised workers though are unlikely to sustain this advantaged conferred upon them as other groups of workers become progressively organised. The second situation arises when unionised workers are able to resist wage cuts more effectively than un-organised labour; this is known as the "ratchet effect". The net result is that over the span of the trade cycle, money wage levels are probably no higher than they would have been in the absence of trade unions. Nevertheless, according to Phelps Brown, organised workers have benefited when compared to non-unionised workers, not on the basis of larger pay increases or smaller reductions in wage rates, but because the former had been obtained earlier and wage cuts, if any, would come later. This has allowed unionised workers to enjoy the high wage rate

over a comparatively longer period of time.

Lewis (1963) in his study on the impact of trade unions on relative wages (based on an examination of earlier studies of individual industries and occupations) of unionised and non-union workers, for the United States over the period 1920-58, estimated that the unions had increased the wages of their members relative to un-organised workers by 10-15%. The union-non union wage differential will vary according to conditions prevailing in the labour market. When the labour market is tight the differential will be relatively small, and when it is slack the converse will be the case. In these circumstances, the larger the differential the less employment there will be in unionised relative to non-unionised industries. Lewis found that a 5% increase in the differential would reduce employment in unionised industries by 3.8% and increase non-union employment by 1.3%.

From this evidence, Burkitt and Bowers (1979) argued that unions in the United States had an "impact effect" or a "once-for-all" increase on members' wages, by countering the monopsony power of the employer. Thereafter, they were unable to produce a continuous widening of differentials. Thus, they concluded that:

> "The weight of evidence from US research suggests that some association exists between wage differentials and union strength but a casual connection is difficult to prove" (p.29).

Mulvey (1978) has interpreted the data differently and rejects the arguments put forward to support the "impact" hypothesis of American unions. This is because union membership fell from 15% in 1920 to 9% in 1929, whilst the differential increased over this period from 17% in

1920-24 to 26% in 1925-29. From 1930 to 1939, unionisation increased from 10% to 19%, whilst although the differential rose to 46% between 1930-34, it fell sharply to 22% between 1935-39, which was the period when union membership increased most rapidly. From 1940 to 1958, membership grew from 20% to 30%, whilst the differential fell from 6% in 1940-44 to 2% during 1945-49, rising to 12% between 1950-54 and to 16% from 1955-58. This led Mulvey to speculate about the:

> "apparent relation between the differential and the state of the economy" (p.110).

The first study of the union/non-union differential in Britain was carried out by Pencavel (1974). He estimated a union differential over 29 industries of 0-10% in 1964, which would indicate that British unions affected relative wages to a lesser degree than American unions. However, this study was centred on a boom year using unionisation and not wage coverage data. Later studies focusing on 1973, a slump year, revealed a higher differential of 16-26% (Mulvey, 1976; Nickell, 1977).

Mulvey (1978) also noted that male manual workers in manufacturing, who were only covered by national agreements - about 25% of the manual workforce - had no wage premium over non-union workers. Whereas those covered by national agreements plus supplementary, company or local agreements, enjoyed a differential of 20-46%. The former may be attributed to the "spillover effect", whereby non-union workers are paid the nationally agreed rate, due either to convention or else to keep out the unions. Therefore, it would appear that plant level agreements are essential for organised workers to retain the differential over non-union workers, which Mulvey estimated was in the region of 0-40% (p.117).

Johnson and Mieszkowski (1970) undertook a review of previous research in the field and they similarly reached the conclusion that the trade unions had managed to increase the wages of their members relative to those of non-unionised workers. They concluded, however, that:

> "although our empirical estimates are subject to a number of qualifications and limitations they strongly suggest that most, if not all, of the gains of labour are made at the expense of non-unionised workers and not at the expense of the earnings of capital" (p.560).

This stems from their observation that raising the level of unemployment in the union sector will depress wages in the non-union sector. On the other hand, if the entire workforce became unionised, then the distribution of income will depend upon the bargaining power of individual unions and their ability to procure any monopoly rents or profits which may exist. However, if

> ".....there are no monopsonistic rents and unions are not able to "tax away" a share of monopoly profits, the distribution of income will be essentially the same as the distribution in an economy in which unions do not exist" (Ibid, p.561).

To sum up. The consensus appears to be that trade unions have achieved few economic gains for Labour through collective bargaining. Thus to achieve their wider social and industrial objectives the British unions have found it necessary to engage in political action.

Political Methods

There are a large number of people who are opposed to welfare unionism (Banks, 1974) and, hence, to any involvement by the unions in

politics. Nevertheless, even in the United States where "business unionism" flourishes, this has not precluded the unions from becoming involved in the political process to pursue social objectives. Similarly, the attachment of the British unions to the principle of voluntarism has not discouraged the unions from exerting political pressure on government to enact social legislation - though typically only in narrowly defined areas.

May (1975) identified three main concerns which have been primarily responsible for the unions involvement in politics. The first is the legislative framework which determines the parameters of trade union action. Here, the unions may put pressure on government to enact legislation to improve the terms and conditions of a specific group of workers, or to strengthen the bargaining position of the unions against the employers. In other circumstances, the unions may try and persuade government to repeal legislation which they find curbs and restricts their activities. Secondly, the unions pursue wider political and social objectives, for example, health and safety standards, which are best enforced through appropriate legislation. The third concern is an extension of the second. This is to influence the economic and social policies of government on public spending, employment policy, welfare and so on, which directly affect their members' lives.

In pursuing their political aims the trade unions have embraced three distinct methods: direct action; parliamentary pressure; and direct influence on government and Whitehall. For much of the twentieth century direct action, covering strikes, boycotts, sit-ins and defiance of the law in pursuit of political objectives, played a relatively

insignificant part in trade union political activities. The unions were more likely to resort to demonstrations, lobbying, delegations and campaigns to get their message directly across. After 1969, however, direct action became more pronounced. The trade unions took to the streets to defeat two attempts by government, one a Labour Administration, the other a Conservative, to introduce restrictive industrial relations legislation, in 1969 and from 1970 to 1973.

> ".....(A)lthough the campaigns were quite explicitly political, directed at preventing or obstructing changes in the law by elected governments, they can be seen as self-contained episodes, not as having established precedents for the use of direct action on other matters" (May, 1975, p.128).

Indeed, the unions have avoided taking the next logical step of furthering their political objectives through industrial action. As we have seen, this can be partly explained by the ideological pressures that are exerted on the unions to conform to "accepted" practices and methods, and partly to a recognition by the unions that the state has historically been prepared to use legal measures or coercion to ensure that they comply with its will.

Legislation

The trade unions' fundamental concern with the legislative framework stems from repeated attempts by politicians and the Courts to restrict their objectives. This ultimately led to the involvement of the unions in party politics. Up to the end of the nineteenth century, the trade unions were prepared to use both the Liberal and Conservative parties as vehicles to achieve their objectives. This bi-partisan

approach led to the passing of the Trade Union Act (1871) and the Conspiracy and Protection of Property Act (1875) by governments of different political persuasions. The former Act gave unions protection from the "restraint of trade" doctrine, while the latter gave immunity to strikers against any action for criminal conspiracy, so long as the union was acting "in comtemplation or furtherance of a trade dispute".

These protections, however, proved to be thin. Thwarted in their use of criminal conspiracy against the unions, the Judiciary turned to the use of civil conspiracy to curtail the actions of the unions. This resulted in unfavourable judicial decisions, in particular Lyons v Wilkins (1896), Quinn v Leatham (1901) and Taff Vale (1901), all of which restricted the ability of the trade unions to engage in strike activity. Only parliamentary action could reverse these decisions.

In 1900, the Labour Representative Committee was formed, whereupon it became a distinct Labour group in Parliament, with a policy to promote legislation to further the interests of working people. The unions in return agreed to pay a levy from members' subscriptions to support the new grouping. Six years later they returned 29 MPs to Parliament, and accordingly changed their name to the Labour Party. In the same year, working closely with the unions, they persuaded the Liberal Government to pass the Trade Disputes Act (1906), which provided the necessary legal framework to enable the unions to continue with their activities. The Act gave the unions complete immunity from legal action against strikers in tort, as well as comprehensive immunity from judge-made law. This more or less encouraged the growth of collective bargaining, free from legal intervention, for the next half century.

However, within three years of the passage of the Trade Disputes Act, in the Osborne Judgement (1909), the Law Lords ruled that it was illegal for the unions to use their funds for political purposes, thus depriving the fledgeling Labour Party of its main source of income. This decision was later reversed by the Trade Union Act (1913), which permitted unions to set up a political fund, separate from their general funds, to spend for political purposes. To comply with the Act, each union was compelled to ballot its members to establish whether they should have political objectives and a political fund. Where this was supported, individual members were allowed to "contract out" of paying the political levy.

In the wake of the General Strike, the Conservative Government once again tried to curtail the activities of the unions, by passing the Trade Dispute and Trade Union Act (1927). This Act outlawed the closed shop in the public sector, made strikes to "coerce the government" illegal, restricted picketing rights, and replaced "contracting-out" by "contracting-in" of the political levy. It was not until the postwar Labour Government of 1946 that this Act was eventually repealed.

The 1960s set in train new developments in labour law initiated, as in the past, by another adverse judicial decision in an industrial dispute. In 1964, the Law Lords discovered, in Rookes v Barnard, an obscure tort of intimidation, to restrict and punish the activities of the trade unions. The judges decreed that a threat to break a contract of employment to enforce a closed shop, constituted intimidation, and was therefore not protected by the 1906 Act. Although these immunities were temporarily restored by the Labour Government's Trade Disputes Act

(1965), the stage was now set for successive governments to take a closer look at how the law could be used to influence behaviour in the workplace.

The first attempt to systematically impose legal sanctions on trade union activities and statutory limitations on pay to contain union militancy was pioneered by the Labour Governments of 1964-70. Following the submission of the report from the Royal Commission, the Labour Government produced its White Paper, "In Place of Strife", which went beyond Donovan's recommendations. The White Paper proposed giving the Secretary of State for Employment discretionary power to order a 28-day conciliation pause in unconstitutional strikes, with financial penalties for those who breached the pause. It further proposed to empower him to order a secret ballot before any major official strike. In return the unions were to be given extended new rights covering areas of recognition by employers.

These proposals signalled an attack on the voluntary tradition of British industrial relations, as well as on the right to strike. The Labour Movement was outraged, and sustained pressure was put on the Government by the TUC and by trade union sponsored MPs, to withdraw these proposals. Faced with this pressure, the Government decided to concede, in return for a "solemn and binding" undertaking by the TUC, to do its utmost to prevent unconstitutional and unofficial strikes.

The failure of these policies, in the face of union opposition, did not deter the in-coming Conservative Government from attempting to impose its own measures for the "reform" of industrial relations. These

proposals were first set down in the party document "Fair Deal at Work", produced in 1968. The Industrial Relations Act (1971), that followed, proposed to abolish the foundation of trade union and abstentionist labour law enshrined in the statutes from 1871 to 1906, and thus in effect sought to reintroduce the principle of Taff Vale, leaving the unions liable to injunctions and damages. The Act proposed to replace collective laissez-faire in labour law by a comprehensive and highly interventionist legal framework, based upon North American experience. The authors of the 1971 Act took the view that:

> "the traditional abstention of the law had allowed the unions to acquire too much power. This concentration of power could, in their view, be broken down, first by surrounding the strike weapon with a new range of civil liabilities which, it was confidently assumed, most employers would eagerly exploit to restore order to their strike-torn workplaces. The second limb of the strategy was to confer new rights on the industrial worker and groups of workers which would in total strengthen their position against the union to which they belonged. Faced with this two-pronged assault on their power, one led by employers and the other by their own members, it was anticipated that the trade unions would become a much more cautious and co-operative influence in British industry" (Hawkins, 1981, p.54).

Under the Act, trade unions were required to register with the Registrar of Trade Unions and Employers' Associations, to bring themselves within the law. An unregistered union had no legal rights and was vulnerable to legal redress, as exemplified by the House of Lords judgement in Heaton's Transport v TGWU (1972). All trade unions, registered or otherwise, were held legally responsible for the actions of their officers and shop stewards and liable for damages. The intention of the legislation was to force union officers to control their shop stewards, and to ensure that they abided by agreed procedures.

In the event, the Act proved to be a failure. The employers were unwilling to use the provisions, provided for in the Act, to take action against the unions; while the TUC instructed its affiliates not to register under the Act, thereby preventing the State from using the unions to discipline their shop stewards and members. The AUEW refused to appear before the NIRC even when it was fined for contempt of Court and its funds were sequestrated. Far from restricting industrial conflict, the Act led to the most serious confrontation between the government and organised labour since the General Strike. The unions orchestrated a political campaign and engaged in industrial action to demonstrate their opposition to this legislation - these strikes were classified by the Department of Employment as political rather than industrial stoppages. This led one American academic to conclude that:

> ".....the underlying objective of trade union political action in the post-war years was simply the achievement, maintenance or restoration of 'free collective bargaining'. Whenever there is a threat to the legal status of unionism or to free collective bargaining, trade unionism moves towards genuine political action to counter the threat" (Richter, 1973, p.218).

The explosion in industrial militancy culminated in the miners' strike of 1974 and the downfall of the Heath Government. The new Labour Administration rejected the use of legal compulsion, firstly, because it had proven unsuccessful and, secondly, because it was both superfluous and inadequate to tackle rising inflation and growing unemployment. Instead, the Government chose to pursue a policy of collaboration with the unions, rather than one of coercion and repression. By this means, the Government was able to use the "social contract" to secure their voluntary compliance to policies that they had previously resisted when imposed by statute by the previous administration.

In return for their co-operation, the Labour Government repealed the Industrial Relations Act (1971), and replaced it with legislation to enhance the power of organised labour. The first of these measures was the Trade Union and Labour Relations Act (1974) (amended in 1976), which repealed the 1971 Act, but retained and strengthened the unfair dismissal provisions in the statute. These Acts essentially restored the immunities of 1875 and 1906, and encouraged the spread of the post-entry closed shop throughout industry. Trade union objectives for labour legislation now passed from the "defensive to the aggressive" (Lewis, 1976, p.14), leading to the passage of a number of Acts to strengthen the organisation and bargaining position of the unions. These included the Health and Safety at Work Act (1974) and the Employment Protection Act (1975).

The former Act established the Health and Safety Commission, an executive body with strong trade union representation, whose powers enable it to act upon any recommedations it may make, as opposed to simply carrying out a monitoring role; thereby giving the unions an opportunity to ensure that the employers comply with the law. The Act also provided for the appointment of union safety representatives at the workplace, as well as placing an obligation on the employers to disclose information on health and safety matters to these representatives. The inspectorate was similarly responsible for passing on to the safety representative any information it may receive from the employer. This legislation therefore offered a number of promising opportunities to the unions of extending workers' rights through collective bargaining.

The latter Act provided for a wide-ranging extension of individual and collective trade union rights: the right to a written statement of conditions of employment and periods of notice; the right to maternity leave and pay; the right to trade union membership and activity; laying down a procedure for obtaining trade union recognition from an employer; providing for disclosure of information by an employer to a trade union; providing the unions with the right to advance warning of, and consultation about, planned redundancies; establishing ACAS as an independent statutory body with functions of mediation, conciliation, and voluntary arbitration. The fact that information disclosure came as an integral part of this "package" is examined in the next chapter.

The election of a Conservative Government in 1979, signalled the ending of corporatistpolicies, and the re-introduction of anti-union legislation. This time union opposition proved to be less effective for a number of reasons. Firstly, the Government was elected on a wave of anti-union sentiment, following the "winter of discontent", when the public sector unions were in the fore-front of opposition to the Labour Government's policy on wage restraint. Secondly, the Government had learnt the lessons from 1971, and did not immediately introduce a comprehensive legal framework. Instead, it introduced legislation piecemeal, to gradually reduce the unions' legal scope and immunities. Thus preventing the unions focusing attention upon, and rallying opposition against, any major legislative proposals. Finally, the high level of unemployment brought about by government economic policies severely weakened the trade unions' willingness to directly confront government.

The Thatcher Administration, through its trade union legislation, embodied in the Employment Acts (1980) and (1982), and the Trade Union Act (1984), reduced the role and effectiveness of the unions. The TUC has been excluded from the corridors of power, and union membership of national level public bodies has been severely reduced. In addition, restrictions have been placed on picketing and secondary action, the closed shop has been curtailed, and trade unions are subject to legal redress if industrial action is not considered to be in furtherance of a "trade dispute". The trade unions can also be sued for damages by the injured party, where an official strike is declared without first having conducted a secret ballot, in which the majority have voted in favour of taking action. The trade unions must also hold secret ballots to elect their executive committees, and ballots every ten years to decide whether they should maintain a political fund.

A number of trade unions have fallen foul of this legislation. For example, British Telecom engineers in 1983, refused to co-operate with legislative measures introduced to encourage competition from the private sector, because they feared that it endangered their jobs. This action, however, no longer enjoyed the protection from damages conferred under the 1906 Act, due to the fact that the 1980 and 1982 Acts have narrowed the definition of what constitutes a "trade dispute". The latter Act states that, it should be "wholly or mainly" in connection with industrial matters, so as to exclude from protection "political" disputes directed at government.

More recently, the NUM and the NGA have both defied the Courts, which led to the sequestration of their assets. In the former case, the

miners had no doubt that their battle was ultimately with the government, whom they believed were determined to cut production capacity in order to reduce Britain's dependency on coal for power generation. Many believed that a hidden, though closely connected reason, was the Conservative Party's desire to emasculate the strength of the miners' union, so that never again would the Labour Movement, with the NUM at the helm, be in a position to challenge and bring down a Conservative Government.

Organised labour, therefore, now finds itself in a position where it is still able to pursue limited industrial objectives, but not to pursue political goals. Nevertheless, this has not completely deterred the unions from seeking political goals which, in many instances, have been aimed at thwarting the policies of government, or have been concerned with maintaining the unions' existing position. However, rarely has union action been directed towards extending the legal rights of trade unionists.

> "Thus the political struggle, like the industrial struggle, has so far been conducted largely at the margins of the system, and the reason for this has been the power of those individuals and groups whose interests, objectives or values are served by confining contention to the margins and preventing any more basic challenge" (Fox, 1985, p.152).

Incorporation

Despite recent trends, the state faces two choices in the way that it can control the activities of trade unions: it can rely upon repression or it may seek to incorporate the unions into the body

politic. If government relies upon the first strategy and is unsuccessful (as it probably would be, since only fascist states have managed to achieve this) then the unions are likely to become militant and may eventually challenge the authority of the state. If, on the other hand, the unions are assigned legitimacy through legal protection, knighthoods and other honours for union leaders, and representation on government committees, the state may be able to cultivate and ensure a "responsible" labour movement that serves to integrate the working class into capitalist society.

The role of unions as integrative organisations has been recognised by Marxists and non-Marxists alike. To the former this process serves to domesticate union goals, so that they pursue objectives that are acceptable to the ruling class. The latter group, by contrast, welcomes the fact that the trade unions can be used to integrate workers into the capitalist system, as opposed to being the vanguard of revolutionary change.

> "When the conflict of interest groups is legitimate, these 'conflict' organizations contribute to the integration and stability of the society. Trade unions should not be viewed primarily in their economic-cleavage function. They also serve to integrate their members in the larger body politic and give them a basis of loyalty to the system" (Lipset, 1959, p.113).

According to Lipset controlled conflict helps to create cohesion and reduces tension. It is when the state tries to suppress workers' organisations that it becomes more vulnerable to subversion from revolutionary movements:

> "It is precisely in those countries where workers have been able to form strong unions and obtain representation in politics that disintegrative forms of political cleavage are least likely to be found. Communist movements have developed in countries which were most inclined to deny legitimacy to unions and other democratic expressions of working-class aspirations" (Ibid).

With this in mind, it is quite easy to understand why governments and management have deliberately tried to build up accommodative relations with the trade union movement. Crouch (1982) argues that social democracy has developed as a political force which has come to terms with capitalism, so that the class interests of labour and capital are harnessed to work in the long-term national interest. Government is able to win their co-operation through a series of compromises, whereby labour is placated by a welfare state and progressive taxation, and in return labour's organisations assist capital in the subordination of the workforce. This of course presupposes that the union leadership is in a position to control the action of its members. Where it is able to do so, an overall consensus will be reached between the unions and employers within the corporatist framework. Though this will still leave room for a high degree of pluralism and conflicts of interests, as both sides pursue their own policies (Crouch, 1977).

In the Scandinavian countries, Austria and the Netherlands, wage bargaining is carried out by the national confederations, whereas in Britain the TUC is not involved in bargaining. In the former countries, wage issues, which are of key interest to ordinary workers, are therefore on the economic agenda at the highest level. This is not the case in Britain. But, like the other confederations, the TUC is concerned with pursuing long-term goals, such as full employment and

other policy issues which may be considered of indirect interest by the shopfloor. Nevertheless, governments prefer to operate and to reach agreement at the national level for reasons of expediency, because this puts the onus for policing any agreement on the national confederation. This is a crucial element in the process of incorporation. The TUC or confederation is left to obtain compliance from among its members, but this can only be achieved if the confederation is in a strong enough position to secure agreement to these policies which, by necessity, requires some degree of integration of the shopfloor organisation into the formal union structures.

Both Labour and Conservative Governments have responded to the demands of economic management by pursuing integrationist and corporatist policies. The 1970-74 Conservative Administration imposed legal requirements on union leaders to control their members. The Labour Government that followed took a different course. After the 1971 Labour Party Conference, Labour and trade union leaders set up the TUC-Labour Party Liaison Committee, a unique institution which brought together parliamentary, party and union leaders in one policy body. The Liaison Committee was established in January 1972, and comprised six leading MPs and Shadow Cabinet members as representatives of the Parliamentary Party, six members of Labour's Executive and six TUC leaders. The trade union leaders were insistent that the Committee should include members of the Shadow Cabinet, as well as the National Executive, so as to ensure that future Labour Ministers were included and that they were party to any agreement or policy reached and, hence, committed to its implementation. By adopting this policy stance,

> "(t)he TUC therefore, for the first time in its history, had a direct line into Labour Party policy making and thus into general election manifestoes" (Elliott, 1978, p.31).

When Labour returned to power in February 1974, the Committee remained in existence, attended by senior Cabinet Ministers, including the Prime Minister and the Chancellor of the Exchequer, so that it became "virtually an arm of government" (Ibid), dealing with policy issues, including draft employment laws. The unions were thus able to turn the social contract into a

> "vehicle of partnership with the new Government, so increasing their influence on economic affairs" (p.34).

In return union leaders appeared prepared to accept public expenditure cuts despite the rising level of unemployment. Furthermore, the TUC General Council willingly suppressed the seaman's strike in September 1976, which was to signal the beginning of the shopfloor backlash against the social contact, as workers increasingly held it responsible for the erosion of their standard of living. The Labour Party can thus be regarded as an integrative political party that, on the one hand, represents working class interests, but on the other acts

> "as one of the chief mechanisms for inculcating the organised working class with national values and symbols and of restraining and re-interpreting working class demands in this light" (Panitch, 1976, p.235).

The involvement of the trade union confederation in corporatist structures is not, however, without its problems. At this level the issues on the agenda are concerned primarily with national economic policies. In these forums the unions are also likely to seek long-term economic goals including, for example, policies to restrain inflation so

as to allow improvements in real incomes, or the adoption of social welfare policies that will lead to an increase in the social wage. Trade union members on the shop floor may not, however, share these goals, especially if they appear to be intangible and are viewed as a one-sided trade-off in return for controls on wages. This has been a real dilemma for the trade union movement. On the one hand, the TUC may pursue "participation" objectives because it believes that this is the best means to satisfy wider trade union goals, whilst, on the other, these may only be conceded at the expense of wage increases.

The likely outcome, therefore, of the involvement of the TUC or national union confederation in politics is conflict between the national unions and the rank-and-file, as represented by the shop stewards' organisations. This is because in practice the "central aim of tripartite control is wage restraint" (Crouch, 1982, p.212). (The involvement of the Dunlop unions with tripartism is analysed in Chapter 6). In return for a say in policy-making, the national unions have had to demonstrate that they can influence the wage demands of their members. They tried to do this by shifting the emphasis from local or plant-level bargaining to national negotiations, so that the burden of restraint fell directly on the shopfloor organisations. However, through time the stewards' organisations rejected these "corporatist - structured" incomes policies, which were designed to curb their pursuit of higher pay for the membership. Ultimately, their ability to resist these policies depended upon how successful these national forums were at winning benefits for the shopfloor. For, in Britain power also resides at plant-level, where autonomous action by the rank-and-file can undermine those policies being pursued by the leadership. This is why corporatist

structures tend to be unstable. In the 1950s and 1960s, attempts to impose wage restraint were defeated through opposition from the shopfloor. The same occurred in the late seventies, culminating in the "winter of discontent" at the beginning of 1979.

Once the position is reached where national understandings cease to have any validity, then government will be less willing to reach agreement with the national leadership. Government may instead, as the three Thatcher Administrations appear to have done, to increasingly rely upon high unemployment to restrain wages. This underlines the paradox faced by the trade unions if they are not radical. To co-operate with government and be drawn into corporatist structures may ultimately weaken the plant-level union organisation. To do nothing, and resist involvement, will result in government adopting other measures to control the unions; one of which may be to weaken the union movement by pursuing policies that actively result in unemployment.

Management

Management has likewise tried to control the activities of the trade unions by attempting to incorporate them into the institutional structure of the firm. In this respect, management policy has played a major part in the development of collective bargaining. This is because

> "(t)rade unions can influence the scope for workplace bargaining only by agreement with the managers with whom they negotiate and only within the limits imposed by the structure of managerial organisation" (Boraston et al, 1975, p.188)

It is management that decides what issues are to be subject to negotiations, and at what level, whether it be plant, divisional or company wide. For example, industry-wide bargaining was specifically initiated by management strategy:

> "the initiative came in nearly every instance from a recently formed employers' federation, more often than not after a national lockout" (Clegg, 1970, p.201).

Management was, therefore, able to negotiate with the unions through an employers' association, which laid down the terms and conditions of employment for all employees throughout the industry.

> "The main advantage of these arrangements for management was that they more or less excluded trade union officials from the workplace or, at the very least, heavily circumscribed their role thus leaving individual managers a relatively free hand in the running of their departments. In brief, the effect was to protect or neutralise the workplace from trade union activity" (Purcell and Sisson, 1983, p.100).

Employers are also in a position to determine the form and type of unionism that operates in their companies. They can achieve this through selective recognition; by recognising a union that is "moderate" by reputation, as opposed to one that is "militant", and this can be successfully implemented by the company before any union has had an opportunity to organise the workforce. Management is thus able to influence the scope of collective bargaining by refusing to negotiate with a union committed to challenging managerial prerogatives at the point of production. The employer may also choose to concede recognition to one union for the entire labour force, in order to avoid multi-unionism and any associated problems, including inter-union rivalries. The local union may similarly find its actions constrained by the need to maintain a good bargaining relationship with the

employer, which will effectively preclude it from raising issues that will be strongly resisted by management.

By these means therefore, management is able to exert its influence over the behaviour of the trade unions. In these circumstances, the sophisticated employer will have little to fear from the unionisation of his workforce, but may instead come to regard it as beneficial to his objectives.

> "By making explicit the many discontents which work in capitalist industry generates, unions help to make workers' behaviour more predictable and manageable" (Hyman, 1975), p.89).

Throughout the postwar years the increase in trade union membership presented a new challenge to managerial authority at plant level. This led to a rise in the number of shop stewards from 90,000 in 1961 (Clegg et al, 1961, p.153) to 175,000 in 1968 (McCarthy and Parker, 1968, p.15), increasing to 250,000 in 1978 (Clegg, 1979, p.51). Management faced the choice of either directly confronting the growing power of the trade unions, or else, trying to adapt and control it to suit its own interests. Management chose the latter course of action, and disclosure of information was acknowledged as a component part of the strategy to exert control over the labour process (Ogden and Bougen, 1985).

Terry (1983) similarly argues that the strategy adopted by many company managements during the 1950s and 1960s towards the growing strength of the shopfloor was one of "helpful accommodation" (p.75). Management was prepared to make concessions to the emerging shop stewards' organisations, though essentially on its own terms. In the

motor industry, for instance, piecework bargaining was encouraged which gave workers a certain amount of discretion for determining their own earnings. The stewards, for their part, regulated this element of "control" in order to stabilise the earnings of the workforce. Procedural agreements were drawn up which extended the role of the steward by involving him in some managerial functions including grievance handling and welfare arrangements (Turner et al, 1967). These measures also benefited management because the involvement of the stewards effectively sanctioned these policies, and by so doing contributed towards the maintenance of orderly industrial relations on the shopfloor.

These concessions by management, paradoxically, had the secondary effect of strengthening the shopfloor challenge to managerial control over the labour process. Towards the end of the 1960s, the employers and the state both became increasingly concerned about the impact of the growing shopfloor power. The "challenge from below" (Flanders, 1963, p.103), or what has also been termed the "challenge from within" (McCarthy and Ellis, 1973, p.92), was held responsible for wage drift, inflation, and the high incidence of unofficial and unconstitutional strikes. Furthermore, the increase in wage costs together with the intensification of foreign competition, contributed to the profits squeeze which beset British industry. Increasingly, restrictive practices, overmanning and low productivity were blamed for the decline of the manufacturing base (Kilpatrick and Lawson, 1980). Management had few options. The choice was one of confrontation or coming to terms with the rival authority on the shopfloor. Hence, Flanders (1967) asserted that management

".....can only regain control by sharing it" (p.172).

However, Flanders did not question "whether those with whom control (wa)s to be shared and those over whom control (wa)s to be reimposed (wer)e in fact the same people" (Goldthorpe, 1974, p.203). Given that they were, there was little reason for management to relinquish any power; all it had to do was to appear to be formally sharing control through employee participation schemes or by extending joint regulation. Thus:

> ".....the Donovan Commission placed primary emphasis on the extension of the process of incorporation: particularly at shop-floor level, where the source of 'anarchy and disorder' (i.e. control by workers) was identified. Shop stewards were to be integrated into the 'responsible' patterns of national union-employer relations by a more formalised relationship with senior management and a clearly defined role within official trade unionism" (Hyman, 1975, p.143).

This process was seen as a vital element in the strategy by management to restore control over those areas of the labour process where workers had established unilateral control. The strategy they adopted was to "mould" the steward organisations in a way that was beneficial to management, rather than attempt to destroy them (Terry, 1983, p.85) Workplace bargaining, which had generally become "largely informal, largely fragmented and largely autonomous" (Flanders, 1967, p.169), was to be replaced by the

> "development of formal, company-level trade union organisation, usually around shop steward recognition" (Terry, 1983, p.86).

Management attempted to achieve this, firstly, by recognising shop stewards and joint shop stewards' committees; secondly, by granting

full-time status to some stewards, and by providing them with, in many instances, office and telecommunications equipment and; thirdly, through the negotiation of closed shop and check-off agreements. To reassert their authority and to legitimise their decisions, management viewed the containment of trade union activity as a necessary first step.

> "This involved, firstly, introducing a variety of procedures to institutionalise industrial conflict: and, secondly, restricting the scope of collective bargaining and avoiding it altogether, if possible, at the point of production. In some cases it also involved avoiding collective bargaining at corporate divisional level. In this way key decision-making activities at the level of production and at the heart of the enterprise became protected from direct involvement in collective bargaining" (Purcell and Sisson, 1983, p.103).

Terry (1983) has suggested that management in both the private and public sectors introduced work study and job evaluation to regulate work and pay, and to remove negotiations from the workplace. The introduction of job measurement techniques to replace piecework removed the responsibility for wage negotiations from individual stewards on the shop-floor, and transferred it to a negotiating committee composed of a smaller group of stewards at plant or company level. The effect of these measures was to encourage the centralisation of the shop stewards' organisation, and the development of joint stewards' committees. This process was also greatly assisted by the wave of mergers, takeovers and restructuring, as firms sought to improve their competitiveness through economies of scale. The stewards were likewise compelled to develop their organisations to enable them to bargain within the new company and management structures. Thus:

> "By encouraging the development of independent steward organisations capable of operating without full-time officials, and by developing company-based measurement and payment systems, managements assisted in a process of increasing shop steward authority within a developing situation that could be seen as the first moves towards a form of 'company unionism'" (Terry, 1983, p.81).

The benefits of these developments were not lost on management, who recognised that the application of job evaluation techniques, together with the centralisation of the stewards' organisations, would directly contribute to the incorporation of the shop stewards into the process of control. As Purcell and Sisson put it:

> ".....job evaluation creates a structured set of differentials....(which makes it)....extremely hard for shop stewards or supervisors to influence pay levels themselves. Claims must be handled through the appropriate appeal machinery staffed by senior stewards and senior management and the basis of the claim is, in theory, restricted to the 'rational' criterion of changes in job content. As the trade unions are often involved in the implementation and maintenance of job evaluation they are encouraged or forced to consider the impact of one sectional claim on the operation of the scheme as a whole. Thus unions can take on a quasi-managerial function of blocking or filtering claims which challenge the logic of the agreed pay differentials. The process of implementation, if undertaken by joint teams of management and unions, is a powerful means of encouraging joint problem solving techniques and a depolarisation of industrial relations. The domestic union leadership becomes, along with industrial relations management, the custodians of the scheme. Even if implemented unilaterally by management, job evaluation and the 'rational' ordering of differentials makes plant industrial relations more controllable. Taken with changes in the basis of bonus calculation the incidence of bargaining is reduced, the location of bargaining changed, and the bureaucratisation of union leadership encouraged", (1983, p.105).

How successful were management and the state in their strategy of incorporation? According to Terry (1983) these strategies achieved only a partial degree of success, owing to the resistance of workers, who became increasingly concerned about the effect that these policies were

having on earnings and employment. Further, these incorporationist strategies also contained their own contradictions. At the level of the state and the company, policies to incorporate the trade unions involved conceding to them power and authority that they previously did not enjoy. The unions were thus able to turn their new found power against both the employers and the state when they decided to rescind their agreements. More importantly, Terry (1983) concluded that the incorporationist strategy failed to have any impact on those targets it was aimed at addressing. Over the period 1973-78, private sector profitability declined, productivity increased at a much lower rate than among our major competitors, and there was little evidence of it having any impact on the incidence of strikes.

Conclusions

The overwhelming consensus in the Industrial Relations literature is that trade unions are incorporated into capitalism. The employers and the state have a vested interest in using their power to control and to "domesticate" the goals of trade unions. To this end, union policies and organisation have been strongly influenced by the structure and dynamics of capitalism, and by the strategies of the employers. These help to reinforce and sustain the mainly reactive nature of trade unionism. Ideological pressures are also exerted on union officials and members to narrowly define trade union objectives, as well as to create an artificial divide between industrial and political objectives. The consensus in the industrial relations literature is that it is the failure of the unions to overcome this barrier, to use industrial action

to achieve their political goals that limits the achievements of trade unionism.

The main method used by the unions to pursue their aims is collective bargaining. There is, however, little evidence that they have managed to increase labour's share of national income. Instead, unionised workers have gained at the expense of the unorganised.

The evidence suggests that collective bargaining helps to institutionalise industrial conflict to produce order in industrial relations. It also allows management and unions to reach agreement on issues that are important to both of them, but which are nevertheless located at the margins, and hence are not seen as a direct threat to the system of control.

It is against this background that we now turn to examine in detail the legislative provisions and codes of practice which have governed the disclosure of financial information to trade unions. The major question to be addressed is: were these rules designed to encourage and allow unions to take a managerial interest in finance and accounting?, or were they designed to limit their interests and involvement to the traditional areas of collective bargaining?

CHAPTER 3 - INFORMATION DISCLOSURE TO TRADE UNIONS

The paradox of information disclosure to trade unions is that, given their reformist objectives, they have little use for published financial accounting information. Nevertheless, the assumption underlying the disclosure provisions in the Employment Protection Act (1975) was that the ability of the unions to negotiate with management was impaired because of their unequal access to information. This would seem to imply that once the unions were in possession of the relevant financial information, they would be able to use it to extract significant gains or concessions from management. However, information disclosure is a highly political subject - a characteristic, as we shall see, which has been ignored by much of the research conducted into it. It is for this reason that many companies have been reluctant to disclose information to trade unions. On one level, employers were aware that disclosure could prove particularly valuable in influencing or "moderating" union behaviour. Whilst on the other, they feared that it could undermine "management's right to manage", or lead to "greater militancy and more inflationary trade union wage demands" (CIR, 1972, p.14).

The potential use of information to restrain union action was fully comprehended by some accountants, certainly as far back as the 1920s. During the early part of this period disputes broke out in mining, railways, the docks, cotton, and the shipping and engineering industries. This was followed by the General Strike in 1926. An accountant writing in the mid-1920s argued that the failure by management to furnish workers with financial information contributed to

the industrial disorder. He wrote that:

> "The damage and loss inflicted on the country by the continually recurring disputes in industry between capital and labour call for the most earnest consideration in order to explore methods by which what is in effect "war in industry" may be replaced by the processes of better understanding between employers and workers.
>
> Among the causes which lead to disputes must be placed in the forefront the lack of knowledge of the true facts as to the financial position in our staple industries....in far too many industries jealous concealment of any facts relating to earnings and expenses is still the rule rather than the exception.
>
> There can be no reasonable doubt that if the principle of furnishing the workers with sufficient detailed information of the cost of the product or service and the profit resulting therefrom were accepted generally, as it is already being accepted in a few cases, while claims for a greater share in the produce would not be avoided, at any rate they would be pressed with a due regard to the facts in relation to the industry or service, and without the exaggerated claims and ideas which are so frequently in evidence on both sides" (Lowes-Dickinson, 1924, p.469).

In view of the turbulent industrial and political climate prevailing during the 1920s, it is unlikely that financial information would have been presented in a manner that undermined the interests of the employers - and it was not. Nevertheless, Lowes-Dickinson's views were later to gain some support.

During the war, information on production was made available to employees through the Joint Production Consultative and Advisory Committees (Marsh and Rosewell, 1976, p.4), apparently to increase output to help "the war effort". Here, employers and the labour-force shared a common interest. With the ending of the conflict these bodies were no longer considered necessary by management or government, and were phased out. However, the 1950s saw a renewed interest in

disclosure as the unions became more closely involved in policy discussions about the development of the nationalised industries. In 1952, disclosure became official TUC policy, whilst the main political parties gave it tacit support as a means of improving "communications" in industry (Marsh and Rosewell, 1976, p.5). A few years later, the British Institute of Management (1957) produced a study recommending the provision of information from annual company reports to employees.

It was not until 1960, however, that the disclosure of company information became a specific "issue" for the trade unions, when the TUC submitted evidence to the Company Law Committee, chaired by Lord Jenkins (Jackson-Cox, 1984, p.253). The terms of reference of the Committee were restricted to the "rights of shareholders and the duties of directors"; nevertheless, the TUC argued that the rights of employees to obtain access to company information should be encompassed by Company law. This initial attempt by the trade unions to put disclosure on the political agenda came to nothing, but in 1967 the Labour Party Working Party Report on Industrial Democracy endorsed the need for disclosure laws. Two years later, it became one of the recommendations of the Donovan Commission report (1969, para 184). It was viewed by the Commission as a necessary step to help "to promote the orderly and effective regulation of industrial relations within companies and factories" (para 182). From here on disclosure was seen

> "no longer in the field of company law reform, but this time in the field of industrial relations law reform" (Jackson-Cox, 1984, p.253).

In 1969, the Labour Government produced its consultative document "In Place of Strife", where disclosure was seen as a means of enabling

the trade unions

> ".....to participate with management on equal terms in the extension of collective bargaining and consultation at company or plant level (1969, para 47).

The document also mooted the idea that a provision was needed to detail the type of information that the unions would require for negotiation purposes. This was incorporated into the Industrial Relations Bill (1970) the following year. It did not, however, reach the statute book, and it was left to the incoming Conservative Government to enact these provisions on disclosure as part of the Industrial Relations Act (1971). This was supplemented by a Code of Industrial Relations Practice, and a report on disclosure from the Commission for Industrial Relations (CIR, 1972).

The Commission decided that a "shopping list" approach was inappropriate, and instead suggested "guidelines" covering six areas, where without this information the "unions will be materially impeded in negotiations" (para 101). The report recommended that it would be "good industrial relations practice" to disclose information on: 1. organisations and activities of the employing unit; 2. manpower; 3. pay; 4. conditions of service; 5. financial information, and 6. prospects and plans for the future. In the spirit of the British tradition of voluntarism, the report recommended that disclosure with regards to timing, presentation and content should be the subject of joint agreement and regulation between management and unions. Critics of the report suggested that:

> "Far from being a clear guide to decision and action, it is merely a collection of very general recommendations which will create little controversy because they are so unexceptional" (Foley and Maunders, 1973, p.4).

The Conservative Government's original intention was to prepare a detailed Code on disclosure after the CIR had reported, but in the event no code materialised. It was not until 1977, under the new Labour Government, that the first Code of Practice on disclosure (Advisory, Conciliation and Arbitration Service, 1977) was produced in connection with the Employment Protection Act (1975). The disclosure provisions of the 1975 Act were broadly similar to those of the 1971 Act.

Motives

It may appear somewhat unusual that the two main political parties, the employers, and the trade unions have all to some degree supported the need for disclosure of information. The reasons for this are: firstly, one of interpretation, the employers seeing disclosure more in terms of "communication" and; secondly, more to do with the different expectations of the benefits each side believed would flow from more open access to information. As Smith and Manley (1973) pointed out:

> "The similarity of the disclosure provisions in legislation proposed by both Labour and Conservative Governments is a comment not so much on a bipartisan approach to solving industrial relations problems.....but on the way widely differing groups all see disclosure as a technique which will further their differing objectives" (p.29).

These differences bècome more apparent when the views of these various groups are subject to close examination. In general, the

employers and trade unions both favour disclosure because they each believe that it will produce "an improvement in industrial relations", that will be to their mutual advantage. However, consider the motivations of the employers:

> "Company spokesmen tend to believe that disclosure and improved communications will produce rational and objective bargaining, prevent rumours, encourage approaches favourable to productivity improvements and job evaluation, enable workers to understand the affairs of the company and improve morale, workmanship and cost consciousness as well as creating a greater sense of involvement and identification with the firm. They argue that it will influence the behaviour of trade unions by stimulating professionalism and moderating some of their demands and attitudes" (Marsh and Rosewell, 1976, p.8).

In her survey of 48 private sector companies, Dickens (1979) found that thirty-three advantages were listed by the 29 unionised firms who responded to the question on disclosure of information to trade unions. These are summarised in table 3.1 below.

Table 3.1 Advantages of Diclosure to Trade Unions Listed by Unionised Companies

Advantage	No		% of Advantages	
Leads to more informed, intelligent collective bargaining	6		18	
Leads to more responsible, realistic collective bargaining	10		30	
Leads to 'better' collective bargaining		16		48
Encourages trust	6		18	
Provides common ground, fosters common interest	3		9	
Gives unions better understanding of the business/management problems	8		24	
	33		100	

(Thirty-three advantages were listed by twenty-nine of the thirty-four unionised employers, three employers saw no advantage, and two did not answer this question).

Source: Dickens, 1979, p.II, table 1

Although it was only a comparatively small survey, it is interesting to note that less than 50% of the perceived advantages related to collective bargaining, the single largest category. Evidently, many employers were not totally convinced that disclosure would influence union bargaining strategies. On the other hand, nearly 52% of the perceived advantages can be classified as corporatist. That is, management recognised that information disclosure had an important role to play in shaping union attitudes and strategies, which may produce better industrial relations, higher productivity, and fewer disputes and strikes. If successful, the incorporation of the trade unions could eventually lead to "better" collective bargaining.

Within this corporatist framework can be included the views of those writers who have identified "ethical" and "altruistic" motivations behind company disclosure policies, where managers believe that employees have a "right" to know what is happening in their workplace (Dair and Reeves, 1979). This open and more participative management style is seen as a product of "higher educational standards and changing social values" (p.26). The authors, however, qualify this assertion by referring to management's ultimate motive as being one of raising productivity through improving industrial relations. Reeves (1980) later classified communication goals according to whether they satisfy "company orientated" or "employee orientated" aims (p.16) - though, in reality, this distinction seems artificial as the latter is usually accepted as an incidental bi-product of the former.

As recipients of information from management, some trade unionists often see disclosure as one means of shifting the balance of power in

their favour:

> "They and their supporters believe that it will redress an imbalance in collective bargaining and enable them to negotiate as equals and bargain in good faith, arm them with valuable information about when an employer can least afford a strike, provide ideological and agitational re-enforcement for claims, compel companies to justify their decisions and, hence, be less autocratic and generally aid the process of improving the status of work-people in industry" (Marsh and Rosewell, 1976, p.8).

A number of socialists including the Institute of Workers' Control (Barratt Brown, 1968; Coates and Topham, 1974) see access to information as a stepping stone to workers' control. They openly reject consultation and other forms of worker participation, which they see as a means of disarming the workers and incorporating them into management. Their demand is for complete access to all commercial secrets, though they are prepared to accept "partial" access because they believe that through time it will encourage the unions to demand increasingly more information. Other socialist academics disagree and assert that the primary goal is not "to open the books" but to "transcend" them (Hyman, 1974, pp.245-6). The reason being that simply opening the books could prove counter-productive, by engendering elitism, where only those who can understand what is in the books can properly determine union policy. These socialist intellectuals also fear that it could lead to a reduction in worker militancy, particularly if workers took the view that existing profit levels precluded any increases in wages.

Gospel (1978) also offered this as an explanation of why the trade unions have not been pushing for greater disclosure. He labelled this union strategy the "ostrich approach". It is characterised by a lack of interest in company information, or cynicism about its value or even

strong hostility towards securing and discussing information. Gospel suggested that this attitude stemmed from a number of causes: inability to relate or connect company policies to the general welfare of the membership; preoccupation with wage bargaining; and "overtly ideological" reasons where:

> ".....the pursuit of company information would mean that the unions would, in effect, be accepting managerial rationality.....disclosure will demonstrate the constraints under which the firm operates and....in the long term will weaken militant aspirations" (p.21).

These arguments have recently been refined by Ogden and Bougen (1985). They focus on disclosure as a managerial strategy where the latent function of accounting information is seen as:

> "an ideological mechanism for propagating and reinforcing managerial values and purposes" (p.220).

Odgen and Bougen argue that accounting information is not "value free" or "ideologically neutral" because it is a management tool, and by definition is concerned with financial viability and profitability. Once imparted into the industrial relations area, where conflict is inherent in collective bargaining, it could become an effective means of "exercising control over labour"; thus undermining the fundamental purpose that trade unions have in collective bargaining, namely that of "contesting managerial control" (p.218).

Accounting information, they believe, could remove conflict from collective bargaining, so that management and unions based their agreements on criteria relating to "efficiency, technology and the market" (p.221). Used in this manner, disclosure would enable management to reinforce its authority, and allow it to educate the trade unions into management's "way of thinking". The terms of all negotiations would be firmly on management's terrain, where it possesses all the technical expertise and where managerial priorities would be seen as legitimate. In this way,

> ".....accounting information may be used as a means of socialising trade unions into endorsing the primacy of market criteria for management decision-making. Disclosure, therefore, could serve the dual purpose of both simultaneously informing and manipulating trade unions" (p.221).

Thus, Bougen and Ogden argue that disclosure may provide the basis for "ideological recruitment", from which could evolve "a new legitimacy for the exercise of managerial authority". Further, it could allow management "to channel union arguments into a discourse which is singularly concerned with managerial priorities" (Ibid).

It is evidently true that disclosure can be a two-edged sword, and that the trade unions would have to avoid the pitfalls of arguing on management's terms. By the same token, however, many employers are sceptical of the "potential benefits" offered by disclosure, possibly because they fear that it will only serve to strengthen the bargaining position of the trade unions. Contrary to this view, Dickens (1979, p.15, table 2) found that only one employer thought that disclosure would actually weaken their bargaining position. Instead,59% of the problems cited were concerned with the mis-interpretation or "misuse" of information, or the inability of unions to understand it, but only 16% mentioned the possibility of a breach of confidentiality.

Many managers appear concerned that accounting information is more subjective than Ogden and Bougen would lead us to believe, and that far from becoming the victims of "latent ideological conditioning" (p.222), perhaps they are fearful that the unions may reach radically different interpretations and conclusions. In these circumstances, disclosure of information could undermine management's right to manage - if trade unionists were capable of providing critiques and alternative interpretations. Odgen and Bougen do not, however, completely dismiss the benefits that accounting information could offer to trade unions. Indeed, they suggest that to enable them to use accounting information

to pursue their own objectives and purposes,

> ".....unions would need to generate and develop alternative criteria to those used by management for assessing organizational performance" (Ibid).

The authors do not unfortunately elaborate on what these "alternative criteria" may be, leaving one to speculate that it probably involves social accounting concepts relating to employment, investment and the environment.

By inference, Odgen and Bougen still appear to be dismissive of the role that accounting can play in enabling the trade unions to achieve their goals. Yet there are examples of where trade unions could have used accounting information to critically appraise management plans: at Lucas (Confederation Trade Union Committee, 1979); the run-down of British Steel (Bryer et al, 1982); and the closure of pits in the coal industry (Glyn, 1985; Berry et al, 1985). Although the trade unions were unable to prevent management implementing their strategy, the fault may not lie with accounting but with the weakness of the union movement. As we saw in chapter 2, trade unions have traditionally adopted a reactive stance which, we shall see in the case of Dunlop at least, leaves them responding to management policies long after they have passed through the planning stage, and normally just before they are about to be introduced. One solution advocated to ameliorate this situation is for the unions to engage in "parallel management" (Lane, 1981) or "shadow planning" (Bryer et al, 1984b), so that the unions would at least be in a position to understand, to question, and to campaign against adverse management policies. This is considered in detail later. Another solution is legislation.

Disclosure Provisions

If disclosure could produce the desired outcomes for management as Ogden and Bougen (1985) suggest, then it would clearly be in management's interest to introduce a policy of systematic and non-selective disclosure of accounting information. So far few companies have appeared willing to adopt a policy of this nature. On the contrary, an inspection of the disclosure provisions of the Employment Protection Act (1975) and the experiences of trade unions seeking to obtain information from reluctant employers, shows how far management is prepared to go to protect it secrets.

The main provisions of the 1975 Act covering disclosure are Sections 17-21. Under section 17(1) the employer has a duty to disclose information to the representatives of independent recognised trade unions which relates to the employer's undertaking, and is in his possession or that of an associated employer, and is information (a) "without which the trade union representative would be to a material extent impeded" in carrying on collective bargaining, and (b) "which it would be in accordance with good industrial relations practice that he should disclose to them for the purpose of collective bargaining". The information requested must also cover matters for which the trade union is "recognised" for collective bargaining purposes. In addition to these limitations, employers are specifically exempted under section 18(1) from supplying certain types of information: (a) if it would be against the interests of national security; (b) which it would be illegal to disclose; (c) which had been communicated to the employer in confidence; (d) which related specifically to an individual, unless he

has consented to it being disclosed; (e) which would cause "substantial injury to the employer's undertaking for reasons other than its effect of collective bargaining"; (f) which related to legal proceedings. There are two further restrictions on trade union rights under section 18(2) where an employer shall not be required (a) to produce, or allow inspection of, any documents other than those specifically prepared for the purpose of conveying the information, or (b) disclose information where the compilation would involve an amount of work or expenditure out of reasonable proportion to its value in collective bargaining.

These provisions are clearly intended to be restrictive - the union has no means of checking whether the information disclosed is inaccurate or misleading, if it is unable to check the original documents. By way of contrast, consider the position of the auditor who acts on behalf of shareholders who is able to examine original documents to ensure that fraudulent or misleading, or even "unfair" information is not being presented.

The provisions of the 1975 Act do not specify what information should be disclosed. Where an employer refuses to disclose information, a trade union may register a complaint with the Central Arbitration Committee (CAC) under sections 19-21. If the complaint is upheld ("wholly well founded" or "partly well founded"), the Committee will specify the information to be disclosed and the time period involved. Where an employer refuses to comply with a decision, the Committee can make an award of the terms and conditions specified in the claim or any others which it may consider appropriate.

To provide guidance to the CAC, a Code of Practice was drawn up by ACAS on what constitutes "good industrial relations practice" in disclosure. The Code has been described as:

> "....an eminently political document, attempting to steer a middle course between thwe T.U.C. shopping list and C.B.I. counter list" (Gospel, 1976, p.229).

The code provides examples of information which "could be relevant in certain collective bargaining situations", under five main headings: (1) Pay and benefits; (2) Conditions of service; (3) Manpower; (4) Performance, and (5) Financial. Each of these headings also includes details of the type of information that may be disclosed. For example, financial information covers: cost structures; gross and net profits; sources of earnings; assets, liabilities; allocation of profits; details of government financial assistance; transfer prices; loans to parent or subsidiary companies and interest charged. Much of this information is available in company financial statements, though because of their sectional organisation, trade unions may be expected to prefer this to be disaggregated down to plant level, particularly with regard to cost structures, profits and transfer pricing.

The Code goes on to state, however, that "these examples are not intended to represent a check-list of information that should be provided for all negotiations. Nor are they meant to be an exhaustive list of types of information as other items may be relevant in particular negotiations" (para 12). The Code then qualifies this list with another list, "which if diclosed in particular circumstances might cause substantial injury". This includes cost information on individual products; detailed analysis of proposed investments, marketing or

pricing policies; and price quotas or the make-up of tender prices. The Code states that "substantial injury" may occur if, for example, certain customers would be lost to competitors, or suppliers would refuse to supply necessary materials, or the ability to raise funds to finance the company would be seriously impaired. In this case, the burden of establishing that the disclosure of certain information would cause "substantial injury" rests with the employer, which at least is an improvement on the CIR Code, where the union had to show "material impediment" and "be able to demonstrate reasonableness having regard to all the facts and circumstances of the case" (para 110). Nevertheless,

> ".....the relationship between the Code's lists and the Act's provisions is vague and contradictory. The Code appears to promise access to certain types of information, whereas the Act merely lays down specific tests to be applied". (Gospel and Willman, 1981, p.21).

In addition, by not placing the onus on the employer to disclose information unless he could prove that it was detrimental to the interests of the firm, the unions have found themselves cast in the role of plaintiffs. How successful have the trade unions been at obtaining information under the Act?

Complaints

From the effective operation of the disclosure provisions in August 1977 up to August 1980, 129 section 19 complaints were received and 35 declarations made by the CAC. After 1978, there was a decline in the use of section 19. The majority of these cases were either settled or withdrawn before they reached a full hearing of the CAC. This may be because the employer was prepared to adhere to the union's request, or

because the trade union recognised that it was pointless to pursue the case. An analysis of the declarations by the CAC reveals that:

> "a majority of users are white collar unions and that a majority of the successful cases are unambitious attempts to gain information on the groups' own terms and conditions: often they are seeking the sort of information which many other trade unionists find readily available" (Gospel and Willman, 1981, pp.21-2).

The preponderance of white collar unions among the plaintiffs can be attributed to a number of factors: greater awareness of the importance of information for bargaining; employers tend to be more secretive when it comes to terms and conditions for white collar staff; and, more importantly, because of their relatively weak bargaining position.

Most of the complaints referred to the CAC concerned terms and conditions, mainly covering job evaluation schemes, gradings, pay scales, and wage systems. This was followed by requests for information on numbers employed and wage bills, labour costs and training budgets and costs. Here the union success rate in obtaining this information was relatively high. By contrast, when requests were made for particularly sensitive information on profits, performance, non-labour costs and closure and redundancy, the success rate was negligible. This is presumably because workers' interests in obtaining information was in conflict with those of investors. As noted earlier, employers need not disclose information if its ability to raise funds would be seriously impaired. Taken literally, this means that the unions have no right to information to enable them to challenge the role of profit. Not surprisingly,

> ".....over 90 per cent of the 'not well-founded' declarations concerned requests for the kind of financial information that would be essential to a shop steward's committee fighting for jobs" (Hastings, 1984, p.181).

Perhaps one of the reasons why the number of complaints to the CAC on non-disclosure has fallen in recent years is because, during the recession after 1979, companies were only too willing to show how badly they were performing in the hope that this would help to moderate union wage demands. Another important reason is the singular lack of success of the unions' requests for information in previous years. The most widely used objection by employers to disclosing information is section 17(1)(a) that collective bargaining would not be materially impeded by non-disclosure. However, even where the conditions in section 17 had been met, trade unions were likely to fall foul of a number of objections under section 18: in particular 18(1)(c) relating to confidential communication, 18(1)(e) based on substantial injury to the firm, and 18(2) relating to the production of original documents and disproportionate work. Therefore, the more ambitious the claims by the unions the less likely it is to be successful, which explains why the unions were unable to use the Act to extend collective bargaining.

In conclusion, it would seem that the 1975 Act has had very little direct impact on disclosure practice (Dair and Reeves, 1979; Dickens, 1979), though it may have had an effect on the more reluctant disclosers by offering a statutory remedy. In her survey, Dickens (1979, p.29) found that 22 of the 34 unionised companies (65%) said that the legislation had had no effect; 12 said that it had had some effect in

making management think about disclosure, of these 8 said that it had led to more information being given to the trade unions; while only 6 reported that it had encouraged the unions to ask for more information.

One possible explanation for the trade unions' limited use of the disclosure provisions is that they already receive sufficient information from management. The evidence available, however, would tend not to support this conclusion, and that on the contrary much of the information provided by management may not be regarded by the unions as directly relevant or useful. Indeed, Cooper and Essex (1977) have stated that:

> ".....shop stewards are likely to find disaggregated data about the future performance of the plant more useful than aggregated data....(and)....information relating to future events more useful that information relating to past events" (p.215).

Another survey of the disclosure practices of 390 firms by the British Institute of Management (Smith, 1975), conducted prior to the implementation of the legislation, found that the only information regularly provided to employees or trade unions by most firms were details of pay scales and make-up of pay, but even here nearly 25% of respondents did not disclose it on a regular routine basis. When it came to General performance indicators and Future Plans, only about 25% disclosed any of this information on a regular basis. About half of all companies said that they never gave information on unit costs, rate of return on capital, value of the company, mergers and takeovers, while around 40% said that they never disclosed information on sales revenue and pre and post-tax profits.

Surprisingly, about a quarter of all respondents claimed that they gave manual workers more information than shareholders (for listed companies, a breach of Stock Exchange rules), whilst a third provided them with less. Cooper and Essex (1977) found, on the other hand, in their survey of disclosure practice in the engineering industry in Manchester, that "information from plant management was rarely provided" (p.213).

It is clear, therefore, that where management is providing information, the timing, content and quality of the information is crucial. In the light of the previous discussion, it is highly unlikely, except in exceptional circumstances, that the unions would have privileged access to price sensitive information about listed companies before the Stock Exchange. Shop stewards may receive disaggregated information on sales, costs and profits, through consultative committees or briefings with management, which would probably not be disclosed to investment analysts, but this probably means that in itself it is of little value in understanding management's strategy.

Shareholders, by contrast, have access to the research services provided by stockbrokers and other financial institutions to help them to formulate their investment decisions. Surprisingly, many trade unions (at national level) are also clients of these institutions and receive the same information. To date, however, it appears that the unions have not devoted sufficient resources to collate and analyse the "disjunct" information (Turner, 1978) available from these different sources.

This lack of interest by the trade unions in pushing for more information was confirmed by Dickens (1979). She found that all firms were either disclosing or were prepared to disclose information on manpower, no firm said that it was not willing to do so. The most "closed" area was found to be Future planning, with only 50% of firms disclosing or prepared to disclose information; the respective figures for Profit/value were 58%; Performance/Efficiency indicators 69%; Costs 62%; and Pay and conditions 64%. However, if we look at these statistics more closely, we can see that only just over 25% of respondents were giving these types of information as a matter of course, and only 38% were willing to disclose this information if the unions requested it. So we are presented with a picture that is one of "potential" rather than "actual" openness (p.34). Only three of the companies sampled reported that no information was given to the unions as a matter of course, while only five companies reported that they had refused a request for information from the unions. In all but one case the information concerned salaries or job descriptions of individual staff. This led Dickens (1979) to conclude that:

> ".....although the information actually being provided to unions in many cases appeares rather limited, there seems to be little pressure from the unions themselves for greater disclosure. This lack of union pressure arguably helps explain the limited impact of the legislation" (p.35)

Why are the trade unions not pressing for more information? Following the introduction of the disclosure provisions of the EPA (1975) in August 1977, Dair and Reeves (1979) examined the policies on disclosure of twelve major trade unions, "who might be expected to take a lead if the use of disclosure rights were being actively encouraged" (p.25). By the late summer of 1978, only five of the twelve unions,

three white collar and two manual unions, had issued any guidance of their own on the use of the new disclosure legislation. Though, with the exception of the TGWU and GMWU, the advice issued to negotiators went no further than the Code of Practice.

Dair and Reeves (1979) also found that knowledge of disclosure rights amongst shop stewards was infrequent and haphazard. Their survey of East Anglian firms, conducted between October 1977 and March 1978, revealed that few firms were under pressure from their trade unions to provide information, neither was there any evidence amongst those firms taking an iniative to supply information that their policy had been influenced by the legislation. Where there was an awareness of the disclosure provisions, Dair and Reeves found that there was a reluctance amongst shop stewards to use them. The most common explanation given was satisfaction with existing communication arrangements. The authors did not take this to indicate that management were providing a comprehensive range of information, but rather that the stewards "lacked the sophistication to ask probing questions" (p.25). This may indeed be true, and also that a level of training is needed to remedy this situation, though equally it may indicate that the stewards had not been confronted by a situation, say, a factory closure, where they needed to muster strategic information. Stewards further indicated that they did not trust information provided by management:

> "Any information they supplied would have little credibility and even if true would be presumed by the stewards to have been carefully selected to support management's viewpoint" (Ibid).

Other stewards were purported to be just concerned with wage issues, so that little regard was paid as to whether disclosure could enhance their bargaining position. Finally, Dair and Reeves contended that as the EPA provisions came into force at a time of incomes policy, negotiators would have had little incentive to use information to formulate wage claims based on "ability to pay". Although there is some logic in this argument, it is equally true that trade unions prefer to base their wage claims on changes in the cost of living, or to utilise "orbits of coercive comparison" with other groups (Ross, 1948), rather than on a company's "ability to pay". It is, therefore, doubtful whether incomes policy was a serious impediment to the trade unions making greater use of the disclosure provisions.

To sum up, so far, the 1975 Act would appear to have had only a very marginal impact on disclosure practice. Many trade unionists found that they were receiving voluntarily from management more information than was prescribed under the Act. As Dickens (1979) pointed out:

> "A great deal of the information currently disclosed to trade unions by employers would be protected under the exemptions of the legislation or fail to pass the tests described" (p.27).

This exemplifies the limitations of the present provisions and demonstrates the constraints on any increase in disclosure. Many trade unionists may fear to make use of the statute to seek more information in case the employer should retaliate by only disclosing the bare minimum in line with the legislation. Even those unions that are "far-sighted" and proactive in their approach to the use of information will see voluntary disclosure practices as more important than statutory

provisions, and will only resort to the latter when voluntary methods fail (Gospel and Willman, 1981, p.22).

The main drawback with the present legal procedures for obtaining information is that, they are "too protracted, requiring too much effort, and with an uncertain outcome" (Reeves and McGovern, 1981, p.57). In the medium term, Hastings (1984) suggests that the legal provisions could be improved by:

> "- placing the obligation on employers to give information rather than expecting union representatives to ask for it;
>
> - stipulating that information about future company plans and proposals be disclosed;
>
> - specifying that representatives have sufficient time to digest the information;
>
> - reducing loopholes for not providing information to an absolute minimum" (p.191).

Hastings concedes however, that even this would not overcome all of the obstacles because "there would be no guarantee that union representatives would be able to utilise the information or contribute to the decision making" (p.191). Fundamentally, the unions would need to press for a change in the law based on a much wider definition of collective bargaining, as well as continually striving to extend the bargaining arena. In the longer term, Hasting suggests an extension of the HASAWA (Health and Safety at Work Act, 1974) framework concept, where there would be a regular flow of information together with a system of employee consultants. This latter idea comes from Sweden, where the consultants may be remunerated by the company, but are employed by the union to assist stewards to interpret and use financial

information.

If the trade unions were able to engage the services of specialist consultants, this would undoubtedly improve their understanding of both information and decision-making. To be effective, however, the unions would need to develop the relevant policies, priorities and strategies to make use of this information. A further consideration should also be given to the role of third parties in British industrial relations which, from the point of view of the trade unions, is generally unwelcomed. There is little reason why outside consultants should not be similarly regarded. Foley and Maunders (1977) have suggested a role for independent auditors to vet and to report on information of potential use in collective bargaining. However, it would be difficult for them to be conceived as anything other than "tools of management" by the trade unions, particularly as they typically work for investors.

Additionally, they are frequently trained in business or management schools, and they associate with management on a professional and social basis as an inevitable result of their work. In principle, therefore, trade unions would have little option but to "audit" for themselves, if they wished to use accounting information to help them protect the interests of their members.

Research on Disclosure

If we consider the academic study of industrial relations, it is apparent that much of the literature is concerned with the trade union movement, whereas the study of management has until comparatively

recently been neglected (Friedman, 1977; Thurley and Wood, 1977 and 1983). Conversely, little academic research has been carried out by accounting or industrial relations specialists on trade union strategy, or the ability of trade unions to influence corporate policy decisions. One of the few areas where there has been a degree of cross-fertilisation between accounting and industrial relations is disclosure of accounting information and collective bargaining.

Much of the early research on disclosure was, in the main, concerned to explain the legislative provisions (Jones, 1975; Gospel, 1976), or concentrated purely on the concept of communications to employees. During this period there was a growing interest among accountants in presenting financial information to employees in a way that it could be readily understood (Corporate Report, 1975). This encouraged a number of companies to prepare special "employee reports" (typically simplified versions of their published accounts) to explain to the workforce the trading and financial position of their companies (Marsh and Hussey, 1979; Hussey, 1979). However, these reports tended to be highly partisan in the way that they emphasised the financial benefits accruing to employees and minimised the contributions paid to shareholders (for example, by ignoring the likely benefits from retained earnings). This undermined their potential usefulness to trade unions because

> ".....as long as the nature of the information supplied is determined by management and the methods of collections and measurement of the various indices are poorly specified, then it is likely that the documents will be regarded as managerial propaganda" (Cooper and Essex, 1977, p.210).

A number of studies on the role of accounting in collective bagaining have focused mainly on wage bargaining (Foley and Maunders, 1977; Palmer, 1977; Craft, 1981; Pope and Peel, 1981). Within these bargaining models disclosure is seen as playing an important role in influencing the outcome of negotiations between management and unions. One of the failings of these models, however, is that they consider disclosure from a managerial perspective, whilst the needs of trade unions and how they might use this information are virtually ignored.

In their study, Foley and Maunders (1977) adopted a pluralist perspective of the enterprise, which sees the firm as "a coalition of interest groups presided over by a top management" (Fox, 1985, p.26). To pluralists, trade unions are accepted as "legitimate expressions of legitimate challenges to managerial rule" (Fox, 1973, p.194). In this model, equal access to information is seen as a means of making the outcome of negotiations more rational. This may lead to a positive managerial pay-off by encouraging the union to revise downwards its assessment of the firm's ability to pay. It may also work the other way by producing in the short-term a loss of tactical advantage to management in "distributive bargaining". However, were management to adopt a liberal disclosure policy, where information is given to the unions on a systematic basis in order to build trust and credibility, rather than used in a tactical sense, this will in the long-term produce positive benefits arising from "integrative bargaining" and "additudinal structuring"*,

* "Integrative bargaining" operates to find common or complementary interests and to solve problems confronting management and unions.

"Attitudinal structuring" functions to influence the overall relationship between the two parties.

A number of writers have, however, questioned how far management is pluralist in its views, when for all intents and purposes their natural inclination is to the unitary position, especially since "unitary values have been strongly inculcated in their own training and development" (Purcell and Sisson, 1983, p.113). Those who take a unitary perspective of the enterprise see management and workforce as having shared interests. This is because

> ".....the 'organizational logic' of the enterprise is seen as pointing towards a unified authority and loyalty structure, with managerial prerogative being legitimized by all members of the organization. This accords with the emphasis that is placed on asserting the common objectives and common values which unite and bind together all participants" (Fox, 1973, p.186).

The policies and goals pursued by management are perceived as being rational and, therefore, the behaviour of the workforce "should" be congruent with these aims. Managers who subscribe to a unitary ideology support the notion of a single authority and leadership in the organisation, namely their own, which commands the loyalty of all employees. Trade unions are seen as having no legitimate function to challenge management decision-making or to present itself to employees as a rival focus of leadership. They are regarded as alien to the organisation and a threat to its well-being. The trade unions are viewed as a "historical carry-over", or as an outcome of sectional greed, or even as vehicles for subverting the existing social order.

Craft (1981) adopts a unitary perspective of the enterprise, where the union-management relationship is seen as basically "adversary", mainly because of "different goals and values" (p.98). Craft argues that, for management, the tactical reasons for disclosing information "must necessarily be a contingency decision" (p.103), dependent upon a number of organisational factors, as well as the management-union relationship, their relative bargaining strength, and the political disposition of the union. Thus, he asserts that:

> ".....the most important factor affecting managerial interest and willingness to disclose financial information is the nature of the collective bargaining relationship with the union. This influences management's perception of whether information will be used for the mutual benefit of the parties and to what extent it will be used responsibly in the negotiation" (p.99).

Where the relationship is characterised by extensive conflict, management will as a matter of course limit the amount of information disclosed to the bare legal requirements, and restrict the union's influence in the enterprise. On the other hand, Craft advocates that management should adopt a "non-selective" disclosure policy, where "the union accepts management problems as its own concerns" (p.99), and contributes to the goals and objectives of the enterprise.

The weakness of these two pluralist and unitary models is, to repeat, that they are concerned solely with wage bargaining. They assume that management controls access to information in the enterprise and that the release of this information, whether for tactical or non-selective reasons, will influence the outcome of negotiations. The models fail, however, to consider the role that information has to play in formulating union strategies, and its relevance to union purposes.

For example, research carried out suggests that trade unions do not base their wage claims on "ability to pay". In recent years it appears that many managements have tried to influence negotiations by disclosing information about the company or market in order to lower union expectations. However, on the whole "this has, with rare exceptions either been ignored or rejected by the unions" (Jackson-Cox et al, 1981, p.266). As I have suggested before, part of the reason for this may be the unions' distrust of management's motives. Another reason is the lack of tradition in Britain for conducting collective bargaining on the basis of detailed financial, production and manpower information (Marsh and Hussey, 1970). For example, Reeves and McGovern (1981, case 3) cite a case of a settlement reached on "ability to pay", which provoked "a very hostile reaction from the workforce" (p.14) because it was below the "going rate". The following year the union also accepted an offer based on what management assessed the company could afford, but this time it was in line with going rates. Although the unions did not make an independent assessment of the company's ability to pay, they did use other yardsticks against which to measure management's interpretation of the financial position. These included: the reduction in deliveries, tangible evidence of a deteriorating trading position; increased investment by the new owners after years of lack of investment by the previous management; the fear that the company might dispose of its holding if it proved unprofitable; and open discussion with senior management on a contract to protect jobs.

From the above we may conclude that the trade unions will normally base their pay claims on "external" standards: changes in the retail prices index; local labour market rates; and key wage settlements.

These are then supplemented and adjusted to take account of "internal labour market pressures", leading to the restoration or consolidation of differentials. It would seem that the trade unions are usually only prepared to consider "ability to pay" when a company is facing financial and trading difficulties, and the normal "external" criteria are unattainable. Where a company is makig high profits, the unions may use this as one of their arguments during negotiations, but they have rarely based their claim solely on profitability, perhaps because in the following years the profits may fall.

Owen and Broad (1983) similarly found that rises in the cost of living were the most important consideration in formulating a wage claim. Nevertheless, they did find that "ability to pay" was an important factor amongst white collar negotiators, who were keen "to retain credibility with the membership by taking account of what the company can afford" (p.29). Because of their members' greater exposure to financial information through their jobs, they asserted that:

> ".....white collar stewards have more potential for mobilising support behind ability to pay arguments than their blue collar counterparts" (p.29).

Although Owen and Broad believe that financial information does have a potentially important role to play in bargaining, they found that it was not being realised because union negotiators were receiving very little management accounting information covering, for example: costing methods used on the site; product cost structures; assumptions underlying budgets; budgeted cash flow information for the company as a whole, or budgeted cash flow information for the site. Similarly, blue collar workers were not receiving information on: output per worker;

planned standard worker performance levels, or subsequent comparison of actual output with standard performance levels.

In spite of the optimism of Owen and Broad, it is difficult to make generalisations from a study of bargaining in just two companies. No analysis was made of why management was not making this information available; perhaps the unions had never requested it, or perhaps management were treating it as confidential because it was an important part of their control system. Even if the stewards did have access to this information, it is by no means certain how they would have used it. As in the earlier case, it is possible that workers will only support bargaining based on financial information so long as the pay deal is in line with the going rate. If pay settlements fell consistently below, there is little reason to believe that the membership would continue to support "ability to pay" negotiations. As Owen and Broad readily admitted the only steward totally against this form of bargaining was a white collar representative, who saw his job to obtain the maximum possible settlement. If circumstances changed there is very little reason to believe that he would remain a lone voice.

The SSRC Studies

In 1978, the Social Science Research Council provided a major stimulus to disclosure research by taking a decision to fund four research projects*. This was part of an "Accounting Initiative" presided over by the Accountancy Steering Group, which was a sub-committee of the Management and Industrial Relations Committee. The Group's aim was to encourage more research in the field of accountancy.

As part of this programme the Group also commissioned research on Inflation Accounting.

The disclosure initiative was viewed as a "relatively novel multi-disciplinary research" (SSRC, minutes of a seminar held at the University of Bradford Management Centre on 5 September 1979). Building on previous research, the SSRC studies

> ".sought to ground their observations in a generally richer institutional context than was the case with earlier studies.....(Moreover,) they have not perpetuated the error of identifying collective bargaining solely with wage bargaining" (Owen and Lloyd, 1985, p.331).

Nevertheless, as we shall see, accounting seems to have played a relatively minor role in the SSRC research studies. This can be attributed partly to the research proposals submitted by the four teams, and partly to the methodologies they adopted. For example, the researchers from the University of Kent set out to develop an approach

* The respective research teams were:

J. Jackson-Cox, J.E.M. Thirkell and J. McQueeney (University of Kent)

M. Gold, H. Levie and R.E. Moore (Ruskin College, Oxford).
T.K. Reeves and T. McGovern (Anglian Regional Management Centre).
F. Mitchell, H.J. Sam and P.J. White in conjunction with D. Tweedie (University of Edinburgh) (The research project was essentially concerned with the dynamics of information disclosure to employees as opposed to trade unions).

to disclosure of company information to trade unions and employees that would investigate:

> ".....the conditions under which information disclosure takes place and would consider the consequences and implications that the disclosure and use of company information would have on such things as the pattern and outcome of collective bargaining" (Progress Report submitted to SSRC seminar, 5 September 1978).

To develop their conceptual approach the Kent researchers drew on concepts from "mainstream industrial relations, management organisation and business theory and political anthropology" (Ibid, p.6).

The researchers from Ruskin College, Oxford, on the other hand, were concerned with identifying "constraints upon the acquisition and use of company information by trade unions". Their methodology was to adopt an "industrial relations/educational framework" rather than a "narrower economic/accountancy one" (Progress Report, p.2). They were concerned that the latter might simply have demonstrated the lack of union expertise in coping with information. This may be so, but it fails to explain why an industrial relations/accounting framework could not have been used, which could have set the case studies within a wider business context, as opposed to a much narrower industrial relations perspective. By studying industrial relations and "accounting in action", it would then have been possible to view disclosure as an integral part of management policy within each industrial sector. The following criticisms can also be levelled at these studies:

1. They failed to explicitly consider the potential usefulness of accounting to trade unions;

2. They failed to relate union objectives to uses of information;

3. They failed to address the political nature of, and hence the political constraints on, disclosure.

In general, we shall see that the weaknesses of their conclusions stemmed from the fact that the case studies were not set in a business or industrial context, i.e. they were not based on a clear financial analysis of the companies or the industries in which the firms were based. Thus, they had no basis for understanding management's strategies, or those available to the trade unions.

Jackson-Cox, Thirkell and McQueeney (1984)

This project looked at disclosure practices in 17 companies. The aim was to investigate the role that disclosure played in the development of trade union and management industrial relations strategies. They indentified two distinct management disclosure policies: the "integrated" and the "ad hoc" approaches.

In the former case, information was provided on a regular basis in order to encourage "employee identification" with company policy and objectives, and to thus allow management to exert greater control over the internal labour market. To assist this policy, management encouraged the development of a shop stewards' committee "to exclude the influence of the external union officials" (p.257). Management's principal objective was "to prevent the segmentation of the labour force through internal and external labour market pressures, and to encourage

the development of a common set of union objectives" (p.259). Management also established a bilateral management-union forum; initially to negotiate the introduction of a value-added productivity scheme, and later as a body where it could provide information to the trade unions. In their view, management was intent on encouraging loyalty to the company, whilst at the same time minimising the influence of full-time union officers, the external union organisation and national industry agreements. This was presented as part of management's strategy to control the internal labour market, consisting of a multi-skilled flexible workforce, and to avoid the "traditional" demarcations prevalent in the industry.

Management recognised that the domestic union was helping to regulate the internal labour market, by "shaping the process of intra-organisational bargaining" (p.262). Convenors were therefore able to win concessions from management on issues not strongly supported by the membership, and thus they were able to extend the range of bargaining issues. However, we are given no further details of these matters, nor the reasons why they were not supported by the membership. By the same token, we were also informed that management readily disclosed information on staff salaries and "marketing" to senior stewards and convenors on a restrictive basis, but the researchers provided no details of the quantity or quality of information disclosed (e.g. what exactly were "regular monthly sales figures"?). Additionally, the Kent researchers failed to indicate whether management was disclosing information on company strategy and long-term prospects.

The research team did, however, inform us that the convenor and shop stewards were unable to make "effective use" of the information disclosed for two reasons. Firstly, they did not fully understand the company organisation. Secondly, the domestic union was isolated from the external union organisation, which constrained their "capacity to integrate information within a wider perceptual field", and thus "its value as "intelligence" for the identification of issues was limited" (p.262). From this evidence it would appear that management had very effectively neutered the domestic trade union organisation, and that the provision of some information and the withholding of other data, had played an important part in constraining the trade unions.

In the ad hoc case, information was disclosed "piecemeal and intermittently, in reaction to specific issues and events" (p.257). Faced with rationalisation of the product lines and organisational changes, the "highly segmented domestic trade union organisation", established an "open inter-union forum", comprising process, craft, technial and administrative workers. The unions also created an "Information Steward", to gather details about the company structure and information on the operation of the parent and other subsidiary companies. Unlike in the previous example, the trade unions controlled the internal labour market, which they used to initiate collective industrial action on minor issues, in order to gain access to senior management. This prompted the plant management into action, who defined the deteriorating industrial relations situation as a "communications problem". Management elected to resolve this problem by disclosing information to the unions through a "single bilateral management-union forum", rather than on a sectional basis. According to the authors, this disclosure strategy was ill-defined because management did not link

this policy to any "substantive, or other issue" (p.259), neither did they "define the level of the organisation at which disclosure should be related and fixed". As a result, management failed to tackle the issue of most concern to the unions, namely, "their relationship to the wider company and enterprise structure". For these reasons "management's reactive and ad hoc disclosure strategy failed in its objectives" (Ibid).

The authors did not consider, however, whether this was a deliberate management strategy aimed at keeping the unions uninformed. Moreover, there appears little reason in this case why the unions could not have found much of the relevant information from published data as the entities were public companies.

This notwithstanding, perhaps the major weakness of this research and, as we shall see, that of other research projects, was that they failed to study the market environment in which the firms were operating. Consequently, no analysis was made of any of the firm's business strategies or that of their competitors. This is a major omission from this research, particularly as the researchers boldly asserted that:

> "In general the management provision of information to trade union representatives was initiated in response to pressures arising out of constraints imposed by the environment in which firms operated, rather than in response to trade union pressures or requests" (p.260).

A detailed analysis of these market constraints would perhaps have given us an insight into the evolution of the various management strategies, and how this influenced their disclosure policies in

different market environments. Further, it would also have allowed us to see what part this information played in influencing, if at all, trade union strategies, so that we could determine whether particular market environments were more conducive than others in stimulating trade union uses of accounting information.

Jackson-Cox et al, concluded that in most cases there was a considerable amount of company information available to shop stewards, but that it was either ignored, or else it was used in a very limited way. They attributed this to the inability of the stewards to recognise its relevance or to link it to a specific issue, mainly because they lacked the expertise to understand the information or were mistrustful of it. As a result they concluded that:

> ".....the major role of information for trade unions must be that of "intelligence", leading to the identification or development of issues, criteria and standards" (p.269).

In this respect, information can play an important role in developing shop stewards' "perceptual fields", though little evidence of this was actually found. Most stewards were seemingly quite content to adopt a "reactive" rather than a "proactive" approach to trade union strategy. Here, union strategy may be constrained or facilitated by the domestic union organisation. Where it was highly segmented or sectional at plant level, it became necessary to create "integrative" or joint shop stewards' committees to overcome these constraints. The researchers produced an example of where a similar initiative by a white collar steward was rejected by the two manual unions because they were in open competition for members. Hence, the opportunity of marrying the expertise of the white collar union in gaining access and understanding

information with the strength of the manual unions was lost.

The main recommendations of the research was that the ACAS Code should be revised so that categories of issues are provided with specific information, linked to a bilateral information policy. These issues may include business strategy, company structure, job security, and new technology. The drawback of these recommendations, however, is the assumption that management will readily agree a joint policy to provide information that will help the unions to extend collective bargaining and joint control. It is difficult to see why management should voluntarily choose to do this, especially when it will not serve their interests to open up areas of corporate decision-making to joint control.

Reeves and McGovern (1981 and 1982)

The research was concerned to show "how shop stewards make use of company information in their day-to-day role". It was also seen as "relevant to understanding how employee participation might be more effectively developed" (p.3). The ten case studies were presented in a sequence to reflect the researchers' assessment of the relative degree of "openness" by management, and hence the progressively favourable environment for the use of information by trade unionists.

This research has been criticised along with other studies of trade unions' use of information in collective bargaining, for being "essentially short term and static in nature" (Owen and Lloyd, 1985, p.333). The researchers are also said to "overstate the degree of

management 'openness' in terms of information" (Ibid, p.335). In a number of the case studies relatively important and crucial information was withheld from shop stewards, because management undoubtedly believed that to disclose it would weaken their bargaining position.

Reeves and McGovern identified six potential trade union uses of company information. These are:

1. To build up a background picture over time of their employing company, and generally to take an informed interest in it - particularly with regards to future job prospects.
2. To understand the rationale underlying a specific management proposal or decision.
3. Having understood the stated rationale, to assess whether management's explanation for an event or decision was credible and valid, especially checking that there were no inconsistencies between various sets of information in their possession.
4. To obtain advance warning of the possible need to negotiate over a management decision.
5. To help decide whether they should be taking into account financial or other company considerations in determining their stance on a particular issue.
6. To propose the adoption of alternative policies or decisions. (1981, p.55 and 1982, p.14).

In most instances shop stewards were concerned with collecting information principally to protect members' jobs, and this was normally geared towards issues as and when they arose. When stewards were using information on familiar negotiating issues, such as overtime working or manning levels, they were more likely to be able to use it effectively and to also receive the support of the membership. This finding has been confirmed by other research studies, where the stewards

> ".....were more concerned that they and their members be involved in decisions relating to job content and context, such as working methods, the method of payment and health and safety at work matters, than in strategic decision making" (Owen and Broad, 1983, p.30).

The researchers also identified a number of constraints which inhibited the use of information by trade unions. These included: lack of information about plant level performance; key financial data withheld by management; inadequate expertise; mistrust of management information; trade union structure; and lack of membership support. Referring to case 5, the researchers reported that white collar stewards found it impossible to use information to persuade members of the importance of certain issues, in this instance, the non-replacement of employees lost through natural wastage. At that particular time unemployment was relatively low locally, and members were therefore not highly motivated by the possible loss of job prospects. The unions were also diffident about pushing this issue too far lest the company retaliated by preventing early retirements. These stewards were well aware that information could be used to extend collective bargaining into wider corporate issues. Once again the lack of membership support was seen as a major stumbling block because

> ".....bargaining over budgets, however theoretically desirable, was believed to be something that management would not accede to lightly, while their members would not be prepared to support them in what it believed they would see as a remote and irrelevant exercise. Competition between unions was also seen as a vital factor here, causing them to concentrate on bread and butter issues rather than corporate issues with doubtful pay-offs" (1981, p.24).

On this particular point the researchers were accused of failing "to investigate strategic decision-making and areas of trade-union management conflict" (Morgan, 1985, p.248). As in the previous research project, no investigation was made of the "environment" in which the firms were operating, essentially because the research focused on "routine" as opposed to "non-routine" issues confronting shop stewards, although job losses later became "routine". In common with the previous researchers, the research team similarly failed to evaluate disclosure and use of information by trade unions within a dynamic context of the firms' business and market strategies. Hence, industrial relations policies and practices were abstracted from the overall corporate policies of the enterprises, instead of being considered as an integral component.

The trade unions are guilty of making similar mistakes, which prevents them from being proactive in their dealings with management and from developing "adequate" policies. As a consequence, there are few trade unionists at the present time who are prepared to abandon their traditional reactive stance in favour of using information to extend collective bargaining into corporate policy decisions, and thereby challenge managerial prerogatives. As a result, shop stewards are left in a virtually untenable position when faced by, say, a plant closure. This is because they only become involved after the decision has been made, with little likelihood that management can be "persuaded" to change its mind. Nevertheless, to move from a traditional reactive role to a more proactive role is equally fraught with danger. These were cogently expressed in a letter from a senior shop steward in case 8, in response to his initial reading of the case studies:

> ".....Your case studies appear to me to be underpinned with the belief that there is some radical alternative to the 'traditional approach' to the role of the shop steward in British industry.
>
> I tend to have some sympathy with this viewpoint, but I believe that this is a political problem, rather than a question of tampering about with the institutions and mechanisms of industrial relations today. There is one conclusion which your findings would lead the disinterested observer to and that is that you would support moves towards the corporate state and a complete integration of workers' organizations into the network of capitalist ownership and administration of industry.
>
> This surely, is one of the main reasons for the complete rejection by the entire political spectrum of the trade union movement....of the Bullock proposals on industrial democracy....
>
> Information disclosure and our legal right to it is a gain that has been won for us....I see it, and I believe that most other trade union representatives do as well, as a right that will aid us in the pursuance of our traditional goal of improving the living standards and working conditions of our members.
>
> To argue, as you seem to, that the information gained should be used by the union reps as part of a campaign to enforce a greater amount of co-determination of management decisions is not only a threat to the independence of the trade unions, it will alternately politically disarm the rank and file leadership of the trade union movement in the pursuit of their primary aims....." (1982, p.27).

In many respects this letter typifies union attitudes to information disclosure. Trade unionists tend to see disclosure as a means of enhancing collective bargaining over the traditional areas of wages and conditions. They rarely see it as part of a coherent strategy to monitor management policy or to extend collective bargaining into strategic decison-making. This is not to deny that disclosure as stated above (or as Ogden and Bougen, 1985 argued) could become part of a management strategy to incorporate or disarm the unions. However, if management can use information within a strategic context, there is

little reason in principle why the unions cannot do the same. As Gold et al stated:

> ".....there are three elements of forward thinking: the selection of objectives or ends, the ordering of priorities, and the choosing of strategies or means to achieve them" (1979, p.85).

By adopting carefully defined objectives the unions could theoretically avoid being incorporated into management functions. It would also allow the unions to assess their own organisation to see how far it was conducive to achieving these goals. And, most importantly, by pursuing a specific strategy the trade unions would be able to select from the vast range of information available, that which was relevant to achieve these aims.

Gold, Moore and Levie (1979); Moore and Levie (1981)

These researchers, from Ruskin College, Oxford, sought to identify the "constraints" which limited the effective use of information by trade unions. They were critical of the idea of disclosure as an end in itself, instead of as a means to achieve trade union objectives. Gold et al (1979) therefore advocated a "user" approach or what has also been termed a "decision-oriented" approach (Cooper and Essex, 1977), as opposed to a "shopping list" approach. They stated that:

> ".....information is a means to an end;.....it makes sense only within its context;.....it must be used within a strategy; and that a "wedge" of the union or unions has to co-operate together to ensure its effectiveness" (p.34).

In their original research, Gold et al identified two main categories of constraints: company constraints, covering managerial

attitudes, industrial relations, company structure; and union constraints, involving union servicing, union policy, and union structure, including shop steward organisation. They later extended their model by adding an additional constraint category: the nature of industry, covering the size and spread of employers, the nature of employment, employment traditions and relations between unions (Moore and Levie, 1981). The initial research covered four case studies, whilst the second stage covered three, including one in the public sector.

The original four studies concerned a major industrial change: an anti-merger campaign at Odhams; the introduction of a participation scheme at British Leyland; the closure of the Ebbw Vale steelworks in South Wales; and union reorganisation for effective bargaining at Lucas. Although the case studies do provide useful guidance to trade unionists trying to improve their use of information, they do nevertheless, leave a number of questions unanswered. Like all the SSRC studies, none of the cases were placed in a business setting or industrial context, and they were conspicuous by the absence of any accounting information. No data was produced on the developments taking place in the market which stimulated these changes, and how far in advance the unions were aware of what was taking place.

For example, at Odhams, we are told that the workforce opposed the merger because they believed it would solve nothing because the real problem was "lack of market adaptation and under-investment" (p.43). No details were given as to how the unions arrived at this conclusion. Finally, after resisting the closure plan, a joint Forum was established

which came under the domination of management, "who fix the agenda and do not discuss future plans" (p.46). Why did the trade unions allow this to happen? Why were the unions unable to develop a broad ranging strategy? Perhaps the answer is that, "it is easier to develop a strategy to counter a one-off crisis, like a merger" (p.86). Similar problems seemed to have occurred at British Leyland, where "participation would appear to stop when management wants it to" (p.52).

The closure of steel-making at Ebbw Vale could be interpreted as a devastating indictment of union disorganisation and incompetence. In this case the trade unions certainly did have access to a great deal of information, both from the company and from publicly available resources, at branch and divisional level. Crucially, however, the ISTC received no information from the planning department at British Steel's head office, nor from the worker directors, who were committed to confidentiality. Faced with the prospect of closure, the workers at Ebbw Vale, assisted by two former BSC managers and a sociologist, prepared their own plan for an integrated steelworks which was presented to the Secretary of State for Industry. We are told that the BSC Strip Mills Division "issued a devastating reply to it" (p.58), though we are not informed about its nature and content.

The plan to shut the Mill arose out of the ten year strategy for the Corporation. The steel industry unions, organised jointly through the TUC Steel Industry Consultative Committee, did not oppose the strategy, nor did it develop a plan of its own. Instead, individual plant committees presented their own case against BSC's proposals - which were, arguably, ill-conceived from the workers' stand point,

because the integrated production methods of the Corporation ensured that one plant could only be saved at the expense of another. "The effect was that this national issue was left for local committees to fight" (p.60). We were informed, however, that the ISTC research department did evaluate the plans for Ebbw Vale, and found the ten-year strategy wanting as far as the production of electric steels were concerned. Yet the branches were completely unaware of this. The researchers suggested in this case that:

> "....(the) ways to increase the use of information on the closure might have included monitoring BSC's progress in achieving its plans, more effective servicing of officials with timely information about developments, an information agreement with the BSC and a strengthening of the participative structure to allow involvement of branch officials in issues beyond plant level" (p.62).

But more pertinently, why was this not happening in the first place? Further, are the assurances from the researchers that progress has been made in this direction by the unions correct? If not, why not?

Their Lucas case study presents details of the type of information problems faced by the APEX stewards. The researchers thought that APEX head office "takes too long to collate material to be of much assistance despite the extra attention it gives Lucas on account of the company's prosperity and innovatory industrial relations" (p.64). The stewards were, therefore, dependent upon information received from management, which was also problematic because:

> ".....the information lacks sufficient detail or consistency to allow satisfactory questions to be raised, documents are not circulated beforehand, so there is little written material and there is virtually no prospective information on finance or production" (p.64).

On the other hand, APEX appeared be have formulated policy and strategy on a number of issues, including the reduction of excessive overtime in favour of extra employment, which was regularly monitored by the stewards. The union used its own channel to acquire information to push for quick replacements when staff resigned. APEX also had a policy on discipline and dismissals, but no strategy on maternity and paternity provisions, temporary labour or, more crucially, on computerization.

The installation of Visual Display Units could have been expected to have had a serious effect on the employment of clerical workers, yet no strategy to tackle this issue had been worked out. The senior steward had written to head office two years previously on this matter, but "they never received an answer" (p.66). Perhaps, more appropriately, the focus of the case study should have been here: how can a union develop a strategy towards new technology, and what are the constraints it will need to overcome?

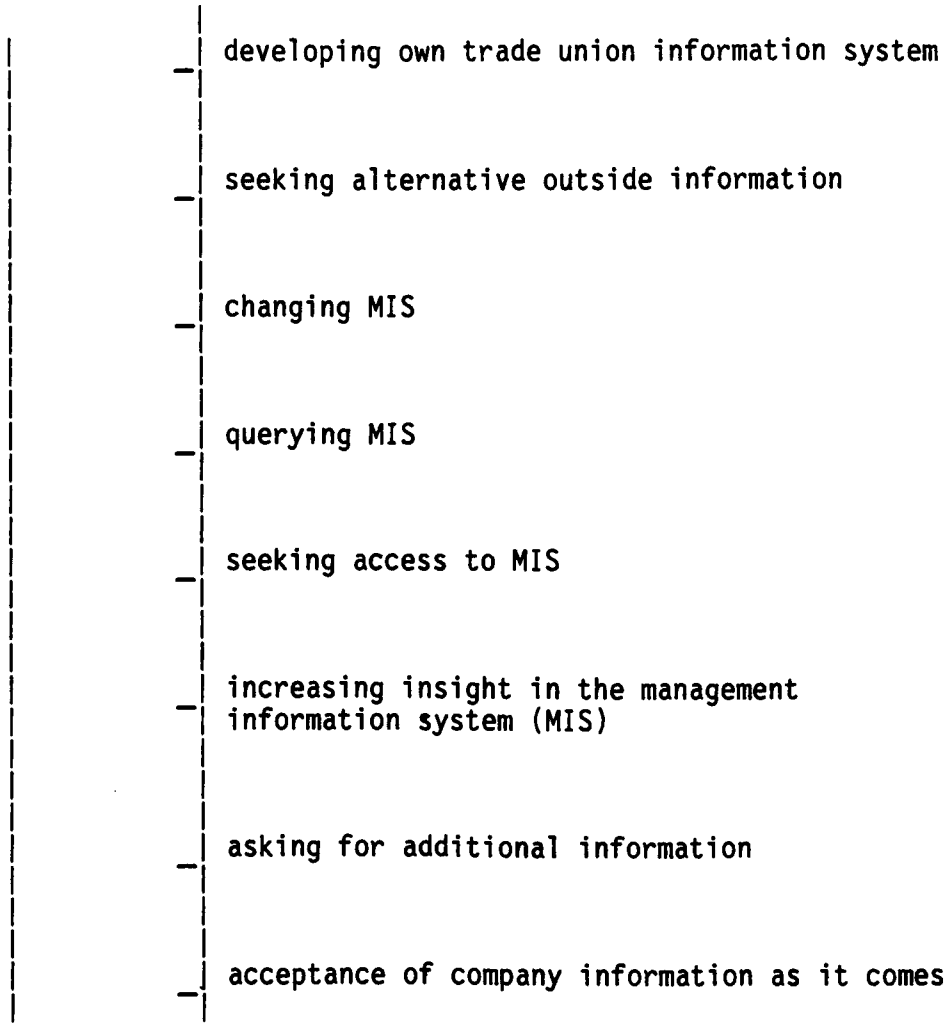
In their second study, Moore and Levie (1981) looked at a further three case studies to explore the use of information by trade unions. This included a case study on the problems UCATT (Union of Construction Allied Trades and Technicians) encountered when trying to gather information about members' earnings, as part of its strategy to consolidate the wages structure in the industry. Disclosure and use of information by the APEX union trustees of the Lucas Staff Pension Fund, and the acquisition and use of information in the public sector by the National Union of Teachers. Arising from these studies, the researchers added a new constraints category to their model: the "nature of industry". Within the list of constraints, however, the competitive

nature of the industry and the corporate policies of the firms were apparently overlooked. Moore and Levie were critical of their earlier constraints model which they now believed to be static, and only useful in helping to identify the constraints on disclosure practice in a particular industrial and company setting at a particular point in time, whereas disclosure and use of information are "dynamic". These dynamic factors were identified as: management style and strategy; the state of the economy (firms more readily disclose information when things are going badly); and, most importantly, the ambitiousness of union demands.

According to Moore and Levie, as the union demands become more ambitious in extending collective bargaining, they move along an information scale as shown in Figure 3.1. Ultimately, the union will reach the point where it will develop its own information system. The evidence from all the SSRC studies suggests, however, that trade unions are unlikely to get past the second rung in the ladder. A critical weakness in the model is that Moore and Levie do not demonstrate how the unions will gain access to the management information system, and what they will gain by doing so. According to Moore (1980):

> "Management information systems, unlike annual reports and accounts, represent operational data which is more likely to be related to company decision-making processes and to industrial relations machinery. By becoming acquainted with these, trade union representatives will be enabled to perceive the reality of the company's structure and organisation through the information system which underpins it. The emphasis is thus placed on the function and use of information, so that requests for more information by unions can be better founded" (p.38).

Figure 3.1 Union Ambition and Information Use



Source: Moore and Levie, 1981, p.9

In addition he contended that:

> ".....since attention is focused on information already collected, there is no question of extra costs and resources being devoted by management to the special provision of information for trade unions. Further, for the same reason, the reliability and credibility of the information (due in part to its regularity and consistency) would be enhanced in trade union representatives' eyes" (Ibid).

But, for the unions to access and interpret information from the MIS would require the agreement of management, plus appropriate training, and the development and implementation of a strategy for its use. A key difficulty, however, is whether management would be willing to consent to this, particularly as Moore and Levie (1981) concluded that "a discussion on disclosure of information is in the end a discussion about access to power" (p.16). Logically, therefore, management has every incentive not to accede to this demand. One may also question whether penetrating the MIS is appropriate. Morgan (1985) suggests that the unions should be focusing on the financial planning system as opposed to the MIS. This could explain some of the confusion on their part about the role and operations of the MIS. As Morgan points out:

> ".....management information systems at this level are designed to provide control rather than strategic planning information and in consequence is unlikely to provide trade unionists any strategic awareness as to how company policy is developed" (p.252).

So how did Moore and Levie (1981) suggest that the trade unions would be able to improve their use of information? In their view:

> ".....the level of democracy in a union is a yardstick of its ability to improve its use of company information. The more democratic a union is, the more chance that the constraints on use of information experienced by a shop stewards committee or a district official are identified and tackled" (p.19).

Here, they distinguished between "formal" democracy which they asserted exists in all unions and "active" democracy which exists in many unions. The latter entails a high level of membership involvement, bargaining structures at every level of a company, and a high level of

co-operation between and within unions. To accomplish this, the researchers state that an active education and research programme would be required that is responsive to changes in collective bargaining, together with a flexible and adaptive trade union organisation. Thus Moore and Levie envisaged that this "active democracy" would act as the catalyst which would assist the trade unions to overcome union constraints on the use of information.

It cannot be denied that better union servicing and co-operation would help to improve the use of accounting information by all levels of the trade unions. The question arises therefore, whether developments in collective bargaining will promote organisational change and elicit better servicing, or whether improvements in education, organisation, and forward thinking will help to extend collective bargaining. Perhaps it is interactive? Another question is the impact of management strategy on union organisation and the levels of collective bargaining. As we saw in chapter 2, management strategy can have a major impact here. This is imperative because Moore and Levie suggest that information agreements are one way of incorporating information rights in collective bargaining, though not in the form of a "shopping list" approach. The preferred method is:

> ".....a procedural agreement specifying the conditions of information to be disclosed (timing, level of detail, reliability, format, etc), for whom it will be disclosed, how often and who is responsible for disclosure. Specifying the substance of the information to be disclosed should be a function of collective bargaining itself" (p.11).

At first sight, there is merit in this approach, and it is an improvement on the practice of appending requests for information on to a pay claim. However, as we outlined earlier, both parties recognise that disclosure is ultimately political. Therefore, there is no guarantee that management will be prepared to sign a procedural agreement of this kind or, if coerced to do so, that they will respect the agreement. Moreover, this still leaves the unions dependent upon management for information, and takes no account of the wider strategic objectives of the trade unions. Hence, information from management should only form part of the total information collected and used by trade unions in pursuit of their objectives. As Morgan (1985) puts it:

> ".....the authors have not realistically assessed the process whereby trade unions can acquire information independently of management. Nor has sufficient consideration been given to the problems involved in reconciling the need for expertise, especially regarding the interpretation of the necessary abstract accounting and other information, whilst respecting the democratic principles which underlie trade unionism" (p.253).

Conclusions

Information disclosure to trade unions is clearly a highly political topic, yet this aspect has been virtually ignored by researchers. Instead, academic research has concentrated on examining the constraints that unions face when trying to acquire and use information. The assumption made is that this will lead to more "rational" bargaining, or that it may assist the unions to strengthen their negotiating positions with management. However, research has largely failed to link uses of information with the pursuit of trade union objectives. This leaves open whether the unions' weak negotiating

position is attributable, not to lack of information, but to their position as "secondary" organisations in capitalist society.

The research reviewed in this chapter reveals that there is a large amount of information potentially available to trade unions, though they appear not to be making use of it. Published information, by contrast, is used by investors to assist them to monitor and control their investments. It would appear, therefore, that the unions lack the "will" or "motivation", as well as the expertise, to use information to help them to achieve their objectives.

The employers, meanwhile, have tried to "sanitise" or to restrict the amount and "quality" of information disclosed to employees - because, presumably,they recognise its political significance - in order to "moderate" and shape union attitudes and behaviour. Here, the employers have been assisted by the state, which has implemented and enforced very restrictive disclosure provisions in its enabling legislation.

In summary, the trade unions appear to have failed to comprehend the possibilities that access to information has placed within their grasp. This can be partly attributed to their distrust of management's motives, and partly to their inability to understand much of the published information. More crucially, however, the traditional "reactive" nature of trade unionism may have constrained the unions from seeking and using information about their industries and companies.

Ultimately, the explanation of the unwillingness of trade unions to actively seek and use information must be sought in detailed empirical investigations of the experiences of trade unions understood in their economic and political contexts. This is the purpose of the case-study which follows in the next three chapters.

CHAPTER 4 - PLANT CLOSURES AT DUNLOP

In this chapter we show that the trade unions were in the main surprised by Dunlop's announced closure of its tyre plant at Speke. The unions were aware that the tyre sector was suffering from "overcapacity", and that Dunlop was producing tyres at Speke and Inchinnan on "old equipment". Nevertheless, they presumed that the company would reduce the workforce at Speke rather than close the factory. Thus, faced with the prospect of a loss of 2,400 jobs, the unions decided to fight the closure plan.

We shall show, however, that the trade unions had left it far too late to challenge or resist management strategy. In spite of the support the workforce received from the community, other workers, and local politicians, it proved insufficient to make the company alter its plans. The unions evidently did all that was in their power to do: they engaged in industrial action; they drew up alternative plans for the factory; they also exerted pressure on the Labour Government, both through their local MPs and by theatening a boycott of the Edge Hill by-election. Yet they failed.

Forewarned that more job losses were expected, the unions set up a number of multi-union bodies to strengthen their bargaining position. But this only served to expose the inherent weaknesses of union organisation, because management refused to discuss strategic issues with them - and the unions were unable to compel them to do so. Shortly afterwards, Dunlop announced the sale of its European tyre operations to Sumitomo of Japan, and once again the unions were completely unaware

that management had been contemplating this strategy.

The Closure of Speke

On 19 January 1979, Dunlop announced the planned closure of the tyre plant at Speke, Liverpool, with a loss of 2,400 jobs. The company also revealed that a further 550 jobs were to be shed at Fort Dunlop, Birmingham, and 250 were to go at Inchinnan, Scotland (in December 1980, this tyre plant was also closed). Whilst some trade unionists were genuinely surprised by this announcement, others had been expecting this "type" of news for some time. In their Report, representatives of the white collar union, ASTMS, stated that:

> "Almost without exception senior shop stewards on the site were expecting the company to announce severe cutbacks in the labour force but the concept of total closure of the tyre division was never seriously considered by them until mid September 1978) (ASTMS Executive Group, undated, Preface; my emphasis).

In his statement to shop stewards, Mr Griffiths, the Production Director for the UK Tyre Division, set out to justify why, in the opinion of management, the tyre plant at Speke had to close:

> "It remains the least productive of all the Dunlop tyre factories in Europe. It has the highest costs, the lowest productivity, the highest level of waste and a poor industrial relations record. It has been subsidised for many years by the more efficient factories in the Division and we now estimate that our losses at Speke during 1977 and 1978 will amount to nearly £8m" (Statement to Employee Representatives and Management at Speke, undated).

The trade unions responded by registering their intent to resist the closure plan. They lobbied their local MPs, wrote to Ministers, organised demonstrations and sit-ins, as well as devising their own

plans to preserve employment at Speke. The unions also formed a Joint Trade Union Action Committee, to press their case, prepare propaganda, and to forge links with the local community.

Local people demonstrated their support by forming a community picket of non-Dunlop employees, from 7am to 5pm, to prevent Dunlop removing £15 million worth of tyres from its warehouse. This was organised to circumvent company rules, which allowed an employee to get paid if he was unable to work through no fault of his own, thereby relieving the workforce of the need to take strike action (Guardian, 22 March 1979). Church Leaders in Merseyside also lent their support by leading a march of some 5,000 people through Liverpool on 10 March 1979, to protest about the closure plans. Yet it was barely mentioned in the national press or media, where attention was instead focused upon the closure of steel-making at Corby, and the rioting by steel workers in France, protesting about the loss of their jobs.

While some trade unionists were building support among the community, others, with the help of the local Labour politicians, were trying to galvanise support from a "sympathetic" Labour Government. If the Speke workers were elated by the support that they received from the local community, they were to be bitterly disappointed by the response from government. On 29 January 1979, Junior Dutton, the Secretary of the Engineering shop stewards at Speke, wrote to the Prime Minister, James Callaghan. The intention was to bring political pressure to bear on Dunlop, to rescind the ninety days' notice and to negotiate with the trade unions about the best way of making the Speke factory competitive with the company's other European plants. In his letter, Junior Dutton

first acquainted the Prime Minister with the facts:-

> "You are no doubt aware that all the Tyre Division employees have been given ninety days' notice of termination of employment. The reasons given for this are reduced demand for our products and low productivity. Whilst both of these reasons may be true, it is also a fact that the Speke Factory has had no major investment in new plant and equipment for over ten years. It is therefore unfair to compare our productivity record with other Dunlop Tyre Division plants in Europe.
>
> We were informed in July/August 1978, that the Tyre Division was in trouble and that we could expect cut-backs in our production programme, and therefore our manning levels, but at no time was it said that we would close" (Speke Joint Shop Stewards Committee, August 1979, Appendix 9).

This clearly reveals the failure by the trade unions to carry out a detailed analysis of Dunlop's corporate strategy and future intentions. If they had done so, they would not have naively accepted management's word that factories would not close. On the contrary, they would have realised that Speke would almost certainly be closed. We shall see that it was only a question of when. Notwithstanding, Junior Dutton informed the Prime Minister that:

> "The Dunlop Company, whilst it has invested money in the UK (but not Speke), has certainly invested large amounts of money abroad to the obvious detriment of the workers here and now I understand is seeking a loan of £50,000 from Government sources to invest in the Tyre Division. If this is true, then they must see a future in the Tyre Industry and I am therefore seeking your help in an attempt to save jobs at Speke and get the Dunlop Company to rescind the ninety days' notice to the workers at the Speke Factory. Surely, if it is going to cost £10,000,000 to close the factory it would be better to invest this money in new plant and keep the labour force at work and not on the dole. You do not need me to explain the position regarding unemployment in the Merseyside are or to spell out the effect that this closure will have on the community" (Speke Joint Shop Stewards Committee, August 1979, Appendix 9).

Since no mention was made of the possible profits that would be

earned from this capital expenditure, the unions obviously assumed that the investment would justify itself. They did not appear to consider the possibility that the closure of Speke was part of Dunlop's strategy to reduce its dependency on tyre manufacturing, and that the company planned to direct future capital expenditure into other product areas. Moreover, the unions wrongly appeared to assume that the Government would do its utmost to persuade Dunlop to retain production at Speke. This illusion was soon dispelled.

Mr Alan Willians, the Minister of State, at the Department of Industry, replied on behalf of the Prime Minister on 14 March. He explained that the Government was fully aware and concerned about the high levels of unemployment on Merseyside, to the extent of providing £200 million worth of assistance during 1978. He also confirmed that the Government was discussing with Dunlop the possibility of providing finance to help with their investment plans, and that

> "....an important consideration will be the company's ability to maximise employment in its UK operations" (Ibid).

But he offered little comfort to the tyre workers:

> "I know that the company is giving careful consideration to what production lines might be continued at Speke. We are obviously kept informed of difficult commercial decisions to close factories or parts of factories, but the particular decision whether to reduce its Speke activities is ultimately one for Dunlop to make, and to explain to its workforce" (Ibid).

This reply hardly satisfied the workforce. On 19 March 1979, Junior Dutton wrote back to the Minister, clearly disappointed at his letter:

> "The information in your letter that Dunlop's were at least considering what products could be continued at Speke, was good news. I thought that the Government had persuaded the company to think along different lines but my hopes were dented when I read your last remarks about the ultimate decision being one for Dunlop's to make.
>
> .....I know it is difficult to interfere with a private company, but I do assure you that those people closely affected by decisions to close their factory and be thrown on the dole do expect a Labour Government to give a positive reponse to help protect those jobs" (Ibid).

A letter in a similar vein was also sent to Eric Varley, the Secretary of State for Industry, on 20 March 1979. The following day the Dunlop Joint Trade Union Action Committee sent a strongly-worded letter to the Prime Minister and members of the Cabinet:

> "We are unimpressed by the aid directed to Merseyside by the Government. In the 12 months ended this March at least 14,000 redundancies have been announced and on one day last week (March 16th) 700 redundancies were announced.
>
> We are particularly unimpressed by the penultimate paragraph of Mr Williams letter of March 14th and the final sentence we find totally uncomprehensible coming as it does from a Labour Government.....
>
> It is our view that a Labour Government has it in its power to curtail and effect the operations of market forces. We on this Action Committee are all Labour voters and activists of many years standing.
>
> We are saying to you that unless we have a positive response to our demand for urgent action to stop the closure of The Dunlop Speke Factory, we intend to mount a massive DON'T VOTE campaign in The Edge Hill bye-election on Wednesday and Thursday 28th and 29th March 1979. We give you until midnight, Tuesday 27th to give positive and concrete assurances" (Ibid).

This prompted the Government into action, and a meeting was hurriedly arranged for the evening of the 27 March, to allow the Secretaries of State for Employment and Industry to meet with representatives of the Speke Action Committee, together with MP Eddie

Loyden and National Trade Union Officials. At the meeting they discussed proposals for maintaining employment in the Speke Factory and saving jobs on Merseyside. Clearly, the Ministers were placed in a difficult position. Successive administrations have used financial and other incentives to influence the location of industry, but no government has been prepared to intervene to obstruct investors' strategies. The dilemma facing the Labour Government was therefore how to appease the Dunlop workers. The Ministers made no promises to the unions, but reaffirmed in their statement to the Press Association on 27 March 1979, their willingness

> "to look at any proposals which were put forward for the maintenance of employment in Dunlop's tyre operations and to explore any means which offered prospects of saving jobs, particularly on Merseyside" (Ibid).

The shop stewards had clearly learned a lesson from their dealings with government. They realised that the Ministers' willingness to "hold talks" with management and unions to further these ends was no more than an empty gesture. The harsh reality was that there was very little that the Government, sympathetic or otherwise, would do at this stage.

The industry was suffering from overcapacity, and Dunlop was determined to implement its plan of closing down outmoded surplus capacity. The Government was likewise unwilling to obstruct the company's closure policy. The gambit of using the Edge Hill bye-election to draw the Labour Administration into the arena, to put pressure on Dunlop to reverse its closure policy, proved to no avail. The battle for manufacturing industry had already been lost, and the politicians were (presumably) now more concerned with remaining in

office and protecting their political positions, than getting embroiled in the affairs of a company which was pursuing a policy which, on the face of it, appeared "rational".

This left the workers effectively on their own. Meanwhile, the trade unions in the plant turned to collecting accounting information to assist them to draw up their own plans for maintaining tyre production at Speke.

(1) Middle-Management's Plan

Managers belonging to ASTMS Executive Group produced a detailed production and manpower plan, in an attempt to persuade senior management to reconsider their decision. Their aim was not to produce a wide-ranging plan in order to challenge company policy, or to counteract company propaganda; instead they hoped to produce a plan that was acceptable to Dunlop. In their document they stated:

> "It is not suggested that all of the conclusions drawn from the report are original. In fact we would indeed hope that in the recent past Senior Management have either discussed most of the suggestions and either implemented them or endeavoured to do so. It may be that because of their very nature, some of the suggestions were not openly discussed with the Trade Unions because it was feared there would be total rejection.....The purpose of this report is to outline a series of major changes that affect both management and employees aimed at retaining tyre production at Speke. Whilst the short term cost of unemployment is high and radical new working practices would be required, this plan does provide some hope" (Part II, section 3).

If senior management had indeed carried out a similar exercise of measuring whether the factory could operate profitably on lower output volumes and a smaller workforce, and there is information from the company's head office that they did, then the middle managers should

have realised that this in itself was evidence that the closure was planned and implemented as part of Dunlop's corporate strategy.

The plan proposed a reduction in total manpower of 40%, producing a saving of over £4 million a year in wages and salaries. This would leave the remaining 60% of the workforce to produce 60% of the existing tractor programme, 65% of the radial, 67% of the crossply truck and 100% of the existing motorcycle programmes. The managers were confident that if their plan was adopted, and production targets were met, this would enable the Speke Factory to capture a greater share of the market for the four main product groups, in particular motorcycle tyres. Despite their belief that there was an immediate lucrative market for the four main product groups, their long-term aim was to attract investment to enable new products to be manufactured at the plant, including the rear radial tractor tyre, the self-diagnostic tyre, incorporating a microprocessor which registers tread wear and tyre pressure automatically, and the high speed motorcycle tyre.

To improve the competitive position in the short-term, the report called for action on dumping. In addition, it recommended that imports should be curbed through the implementation of the West German policy of homolgation, whereby a car cannot be registered unless it possesses components of a certain standard, which are normally only available from domestic manufacturers. In the medium-term, the report suggested that government assistance might be required to encourage new investment in plant and machinery, buildings, and research and development. However, given the overcapacity in the industry and stagnating demand, this was not a policy that was acceptable to either Dunlop or the Government. Neither party had any intention of investing in modern capacity at Speke.

The Manpower Plan:

The main emphasis in the plan was increased efficiency; to be achieved through a radical reduction in the workforce accompanied by higher productivity, improvements in quality, and greater flexibility of labour. The report also called for a number of changes in working practices, including the elimination of certain customs and practices, such as early finishes; unnecessary overtime; overmanning; and low interim outputs. It also recommended that hours spent on trade union activities should be brought to a minimum, and that shop stewards, when not attending to union business, should work at their appointed jobs. The report further proposed that the Industrial Engineering department should determine accurate manning-levels for staff, engineers and rubberworkers, as to date only the latter group had been subject to work measurement. The report recommended that job evaluation should be introduced to determine a new grading structure for all groups of workers, and that piece-rates for rubber workers should be re-evaluated.

The plan analysed in detail every department in the factory, looking at what needed to be implemented to achieve the proposed targets, taking into account manning-levels, management, supervision, organisation, production methods, quality, over-manning, shift systems, and plant and machinery.

The plan called for a reduction in the workforce from 2,320 to 1,389; a loss of 931 jobs. It was proposed that staff and management should suffer a 29.7% cut in jobs, engineers a 70.7%, and rubberworkers a 33.4% reduction. Not surprisingly, the manual unions refused to support

it, as the plan called for their members to bear the brunt of the job losses. They responded by drawing-up their own plan to save the Speke Factory (see following section).

Table 4.1 summarises the costs expected to be incurred in meeting the proposed target for 1979, compared to those costs that would be incurred for the same programme, if the total labour force and overheads were not reduced as outlined. To meet this objective, the plan envisaged that productivity would increase to a minimum of 10.06 Kgs/man hour, compared to 7.17 Kgs/man hour in 1978 (Ibid, Part II, Section 9). This would lead to a substantial reduction in unit costs, allowing "marginal" costs to fall from £22 million to just under £19.3 million. Further, under the former, total factory costs were estimated to fall to just over £22.75 million, exclusive of base stores cost, as compared with £26.7 million in the latter case; producing a saving of £4 million. This would result in material costs, still the largest item of expenditure, rising from 40.4% to 47.5% of total factory costs, whereas direct labour costs would fall from 14.7% to 12.3% of total factory costs.

The managers accepted that what they were proposing was a "ruthless" plan based upon their own knowledge and experience of the industry and plant. This they duly acknowledged:

> ".....the whole of this report serves as a guide as to the way the factory needs to be re-organised. It forms the basis for urgent and in-depth discussion on all aspects of production" (Part II, Section 4).

The managers believed that their plan, accompanied by a strong commitment from all the workforce to the changes put forward, could

persuade Dunlop not to close Speke. However, as we shall show, investors are not interested in altruism, but are concerned to support plans that produce acceptable profits. Based on this criterion, it is not clear whether the managers' plan would have produced "satisfactory" profits, though it is doubtful because no profit forecasts were produced. Instead, the plan was drawn-up on the basis of the "proposed programme levels for the four main product groups", which were "conservative estimates of 1979 requirements" (Part II, Section 3).

These output projections were, nevertheless, calculated before the western economies suffered the onset of the second oil crisis, when the world was plunged into recession for the second time in less than a decade. The depressed economic outlook would have required the output volumes to be revised downwards still further, and with it a greater reduction in manpower requirements. As a result, larger savings than the projected £4 million in labour costs and factory overheads would have been necessary. Even allowing for the greater cost savings, in the absence of detailed output and profit forecasts, it is not possible to state whether the plan was sufficiently profitable, though it is unlikely.

Thus, the plan was little more than a cost-saving exercise. The proposed changes on their own would probably not have made tyre production at Speke sufficiently profitable, regardless of the changed economic outlook. Although the managers believed that there was a large market for the products that they produced, they did not support this assertion with any sales forecasts, neither did they clarify why, if

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this large potential market existed, it was necessary to operate on a smaller production programme? The managers certainly had their doubts whether the plant could survive long-term on the existing product range, since they called for investment in modern equipment and for the introduction of new products. However, they failed to specify the level of capital expenditure that would be required to make the factory profitable. Without it, we may speculate that the Speke plant could not have produced satisfactory profits on an obsolete product range, for which there was a declining demand.

The plan also proved "unacceptable" to the manual unions, because it required them to disclose their hand in advance by accepting the loss of 813 jobs. Moreover, acceptance of the plan may well have seriously impaired the ability of the unions to negotiate the best redundancy terms for those about to lose their jobs, and the best terms and conditions for those employees retained by the company.

The plan also highlighted the traditional sectional interests of the white collar and manual unions, as the latter were not prepared to support a plan which they had played no part in drawing up, particularly when it resembled the kind of exercise any management team might wish to pursue, in order to cut jobs and reduce unit costs. In response the manual unions decided to draw up their own plan for the plant.

(2) The Manual Workers' Plan

The plan was drawn up on behalf of the Dunlop Trade Union Action Committee, by Tony Lane, a lecturer in Sociology at Liverpool

University. The report he produced fulfilled a dual purpose. Firstly, it presented the trade unions' case for keeping the plant open and, secondly, it attempted to rebut the criticism from management that the blame for Speke's poor performance and low productivity and, ultimately closure, lay with the workforce (Liverpool Daily Post, 5 April 1979). The report set about "demolishing" the case for closure by challenging the premise that poor productivity, caused by an unco-operative and recalcitrant workforce, was the root cause of the problem. Instead, the report put the blame firmly on lack of investment and the run-down of the factory over many years:

> ".....the tyre plant has been used as a 'bits and pieces' factory, the place to fit in bits of programme that cannot be produced elsewhere. Since the plant has always been a 'residual category' it has been consistently starved of investment" (Dunlop Spekes, 6 April 1979, p.ii).

Tony Lane was able to amass a great deal of evidence from internal reports and published information to support the unions' case. From table 4.2, it is evident that employment at Speke had been progressively cut-back from a peak of just over 7,000 in 1952 to under 2,500 by 1978. This was a direct result of the failure of Dunlop to invest in new plant and machinery, and to introduce new products on Merseyside. On the contrary, the company had been gradually running-down the factory. Over this period, twenty-three products were transferred from Speke to other sites. The only new products to be produced in the factory were radial truck tyres and motor cycle tyres, in 1965 and 1972 respectively.

Table 4.2 Employment at the Speke Factory. Rubberworkers and Engineers (not including staff), 1952-78.

Year	Workforce
1952	7,023
1954	5,988
1956	6,384
1958	5,142
1960	4,290
1962	3,688
1964	3,110
1966	3,508
1968	3,376
1970	2,958
1972	2,550
1974	2,719
1976	2,458
1978	2,457

Source: Dunlop Spekes, 6 April 1979, p.10.

Table 4.3, compiled from internal information, reveals that only in three years between 1968 and 1978, did capital expenditure exceed depreciation, measured on a historic cost basis. The lack of investment was so severe that the book value of buildings, and plant and equipment, without allowing for the replacement cost, were almost written off. In other words, the workforce were producing tyres with very old plant and equipment.

The shop stewards requested from management a detailed list of the age and value of the equipment in use. This was to be used to support their case against Dunlop, that the factory had been "starved" of investment, and that this was the prime cause of the low productivity in the plant. Management were not willing to accede to this request, possibly fearing the propaganda value of the information. Not to be deterred, the stewards compiled a list of their own based on their

knowledge of the machinery, which is reproduced in table 4.4. All of the Banbury Mixing units dated back to just after the Second World War, as did seven of the eight mills. The planned life of this equipment was until 1960-62, and it had been fully written-off. Most of the remaining equipment listed was installed between 1955 and 1965, and it similarly was only valued for scrap.

The trade unions claimed that Dunlop never completed the "ten-year modernisation plan" drawn up for the factory in March 1973 (just before the first oil crisis). Under this plan, the company proposed to invest £8.5 million in new plant; £5.7 million or 65% of total capital

Table 4.3 Capital Expenditure at the Speke Factory, 1968-78

Year	Depreciation (£)	Investment (£)
1968	465,000	744,000
1969	489,000	671,000
1970	552,000	226,000
1971	440,000	304,000
1972	546,000	443,000
1973	495,000	649,000
1974	528,000	279,000
1975	516,000	209,000
1976	500,000	487,000
1977	508,000	460,000
1978	483,000	388,000
TOTAL	5,522,000	4,860,000

Original cost of Factory Building:	£1,534,000
Original cost of Plant and Equipment:	£9,569,000
Book value of Building, 3-78:	£ 760,000
Book value of Plant and Equipment, 3-78:	£2,501,000

Source: Dunlop Spekes, 6 April 1979, p.11.

Table 4.4 A Breakdown of some of the Plant and Machinery Operated at Speke by Age and Value

	Installed	Life till:	Book Value
88" curing units	1946	1961	nil
66" " "	modified 1961		nil
55" Bag-O-matics	1965	1980	£3,669
63½" "	1965	1980	£3,239
75" "	1960	1978	nil
85" "		on leasing agreement	
Auto-forms	1961	1976	nil
40" Bag-O-matics	1955	1970	nil
10A Casemakers	1926	1935	nil
13A "	1957	1967	nil
Crown Overlaps	1961	1971	nil
Banbury Mixing Units			
No. 1	1945	1960	nil
2	1945	1960	nil
3	1946	1961	nil
4	1946	1961	nil
5	1945	1961	nil
7	1947	1962	nil
Mills			
A	1945	1961	nil
B	1945	1961	nil
C	1946	1961	nil
D	1946	1961	nil
E	1946	1961	nil
G	1946	1961	nil
J	1947	1962	nil
K	1962	1976	nil
Calendar No. 9	1947	1962	nil
" 11	1946	1961	nil
" RB 6 36"	1965	1980	£1,700
Veneer mill	1945	1950	nil
Quality Control			
X-ray units RB6 11 items	1972-74	1979-82	£8,134

Source: Dunlop Spekes, 6 April 1979, p. 12.

expenditure, was to replace machinery dating from around 1945. By far the largest amount, £3 million, was to replace the Banbury Mixers installed in 1945. A further £0.3 million was scheduled for roof repairs.

In the event only £2.5 million, or 28% of the original planned expenditure, was invested in new plant and equipment between 1973 and 1978 (p.13). The onset of the oil crisis towards the end of 1973 caused the programme to be shelved. As we shall see later, investors in general were no longer concerned with modernising British manufacturing industry.

The trade unions contended that this effectively signalled the end of management's intentions to upgrade and modernise the factory. Of the £7 million allocated for investment in the Tyre Division in 1977, only £415,000 was scheduled for the Speke Factory (p.14). The capital expenditure plan produced in April 1978, setting out plans to spend £10.1 million at Speke during the period 1979-81, was similarly heavily criticised by the unions. Tony Lane insisted that this "plan" was simply a list of projects submitted by the Plant Engineer, that were

> ".....seen as necessary to keep the plant operational. None of it was sanctioned. The vast majority of the projects listed are concerned with meeting statutory safety regulations and maintaining existing efficiency only. No modernisation of any kind was envisaged" (p.13).

Thus, on the strength of the available evidence, the trade unions asserted that under-investment, the lack of products with long production runs and buoyant markets, poor working conditions, and low morale, had all contributed towards the low productivity at Speke.

Table 4.5 A Comparison of Productivity in Dunlop's British and European Tyre Plants, 1975-77 (measured by Kg. per man hour)

UK Plants	1975	1976	1977
Fort Dunlop	9.0	9.33	8.94
Speke	8.2	8.44	7.31
Inchinnan	10.54	10.4	9.6
Washington	10.14	18.75	17.2
EEC Plants			
Wittich	17.8	18.19	20.12
Hannau	15.9	15.7	16.9
Amiens	-	-	14.11
Montlucon	-	-	15.0

Source: Dunlop Spekes, 6 April 1979, p.8.

Table 4.5 reveals that Dunlop's British tyre plants, with the exception of Washington, were considerably less productive than the European factories. Of the former, Speke was the least efficient. However, these productivity comparisons take no account of age and quality of machinery, product mix, and length of production runs. It is clearly a combination of all of these factors which accounts for the higher unit costs in the British tyre plant.

The trade unions therefore justly accused Dunlop of running-down its UK operations, by investing instead in France and West Germany. The unions stated that the only modern tyre plant in Britain was Washington, which explained why it had productivity levels on a par with the European plants. Paradoxically, owing to its lower wage costs, Washington was stated to be Dunlop's only profitable tyre plant in Europe.

In summary, the trade unions probably reached the right conclusions about the closure of Speke but, as we shall see, they were too late. Their failure to monitor management policy ensured that the unions were always reacting to fait accomplis. Management, by contrast, were able to propagate effective propaganda by constantly repeating that poor output and high wastage rates had made Speke the least efficient plant in Europe, which ultimately led to its closure. Because they did not monitor management's plans, the unions were constantly forced on to the defensive to rebut the criticism that it was their actions and practices that were largely to blame.

Union Proposals to Retain Tyre Production at Speke

The trade unions were determined to prevent the Speke Factory from being closed down, with the consequent loss of 2,500 jobs. They therefore tried to "open talks" with Dunlop on the measures needed to save the plant, using the recommendations and machinery of "efficiency dialogues" as the basis for negotiations. Management had estimated that the losses incurred during 1977 and 1978 at Speke amounted to nearly £8 million. The trade unions made no attempt to transcend these figures by basing their case on value-added analysis (see Morley, 1978 and Sizer, 1981), to argue that the over-riding concern should be the total wealth produced for the nation, rather than the profits accruing to investors. This would have at least allowed the unions to demonstrate whether the Speke factory was "financially viable" from the point of view of the wider community, by showing that the factory was capable of generating sufficient wealth to cover labour costs and pay for investment. The unions, instead, found themselves arguing on management's terms, where

they accepted the need to improve efficiency and to stem the losses suffered at Speke, and to meet these ends the shop stewards were prepared to give a clear commitment to:

"1. Renegotiate working practices with a view to increasing efficiency.

2. Ensure overtime working is based on actual requirements.

3. Negotiate procedures for minimising lateness and absenteeism.

4. Ensure disputes between management and workers are pursued through the jointy agreed procedures.

5. Negotiate flexibility of labour with a view to improving efficiency.

6. Negotiate allocation of tasks for craftsmen to ensure skills are fully utilised.

7. Negotiate flexibility of craft labour such that simpler maintenance functions are left to process workers.

8. Negotiate conditions whereby all personnel agree to be trained in tasks not required of their particular job function.

9. Negotiate appropriate levels of manning associated with changes in work practices" (p.23).

In short, the unions were now prepared to concede on key issues where management had been seeking concessions over a number of years. The stewards proposed that the negotiations should include the profitable Sports, Rubber Belting and Motor Cycle departments, as well as the loss-making departments, identified as Radial Truck, Crossply Truck, Rear Tractor, Storage Control Inspection, Engineering, Administration and Technical and the Mill.

The report recognised that the obsolete machinery made it

impossible to reap profits immediately in these loss-making departments, regardless of any new agreements negotiated, and so the unions recommended that "massive investment in new automated machinery" would be required. However, the shop stewards were aware that, given the level of overcapacity in the tyre sector, any new investment at Speke may not have proved "economically viable", if similar investment was planned for Fort Dunlop. In short, Speke was not a "special case". Most of the other Dunlop tyre plants in Britain and Europe had also been "starved" of investment, as the company was trying to reduce its general dependency on tyres. Similarly, the factories operated by the majority of rubber companies in the UK, with the possible exception of Michelin, were also suffering from under-investment as we shall see was evidenced by the fact that many were still producing crossply tyres. Michelin was one of the few companies to have installed fully automated radial production facilities in all of its plants.

To avoid the argument that Speke should remain open at the expense of jobs in other factories, and the consequence that any investment in automated plant at Speke would reduce labour requirements in the factory by 50%, or 1,000 jobs, an attempt was made to guarantee the long-term future of Speke, Fort Dunlop and Inchinnan, by calling for investment in new machinery plus the introduction of new products in all three factories. Additionally, the unions recommended that some of those products currently manufactured abroad, which had growth potential, should be transferred to the British factories. The unions cited as a precedent the agreement negotiated between Dunlop-Pirelli and the Italian unions to transfer products from the North to the South of Italy.

However, whilst investment in modern plant and the introduction of new products were clearly necessary to ensure the viability of the factories, on their own they were not sufficient. As we shall see in the following chapter, investors' strategies were at this time orchestrating a divestment away from British manufacturing industry. Against this background, and the concomitant recession, it is doubtful whether the measures advocated by the unions would have been sufficient to generate the "acceptable" profits necessary to guarantee the future viability of the factory. The initiatives from the trade unions had come far too late.

All the social arguments marshalled by the unions concerning the "desperate unemployment" on Merseyside were not enough to make Dunlop reverse its strategy. The report estimated that lost revenues plus social security and other costs would produce a loss to the State of £8 million a year (p.26); whereas, if Speke were to remain open, the Government would only have to make available about £2 million, assuming higher productivity and greater efficiency resulting from changed working practices, to stem Dunlop's losses (Ibid). However, in the context of the recession caused by the second oil shock in 1979, a considerably larger injection of cash from government would have been required to offset the resulting higher losses.

In summary, the unions' strategy for Dunlop was based on the following points:

"1. The immediate withdrawal of all enforced redundancy and factory closure notices. This is to allow discussions to take place in a reasonable atmosphere between management and unions about the current overcapacity of the tyre market.

2. The introduction of import controls on all tyres to be applied irrespective of EEC regulations. One way of overcoming such regulations would be to adopt the West German and Japanese policy of homolgation, i.e. to introduce technical restrictions in the country which discriminates in favour of British tyres.

3. Massive investment in Dunlop's plants to replace the current outdated equipment.

4. A planning agreement to be negotiated to allow the trade unions, Government and company to plan a secure future for Dunlop employees. The agreement will enable the planning of new rubber based products to be introduced in those plants facing rundown in employment arising from the introduction of automated machinery" (p.25).

The Response by Dunlop

On 17 April 1979, Mr Geoffrey Wheater, Managing Director of Dunlop Ltd, with responsibility for the European tyre operations, wrote to Mr John Miller of the TGWU outlining the company's response to the plan put forward by the Dunlop Joint Trade Union Action Committee. A copy was also sent to Mr Stan Pemberton, the Chairman of the TGWU, and a senior shop steward at Speke. The company stated that there were many points in the document that they felt were inaccurate or misinterpreted. However, Dunlop declined to elaborate on this matter, instead it concentrated its response on the main principle of the plan. Management stated that:

> ".....the proposal to operate the factory on much reduced volumes and staffing has already been considered by us and rejected. The overriding factor was that lower volumes could not support the overheads and fixed costs of a factory as large as Speke. The poor delivery performance of the factory over the past years has led to a loss of customers at home and overseas which has added to the problems of a stagnant market, and the point has been reached where the plant is simply no longer viable (i.e. profitable)" (Speke Joint Shop Stewards Committee, August 1979, Appendix 9; my insert).

Dunlop also stressed that disruptive action by the workforce and the community had further undermined the competitive position of the factory, because important customers had turned to competitor companies for their supplies. Management feared that this action could undermine customer confidence in Dunlop tyres generally, thereby contributing to job losses at other Dunlop factories. The company, however, confirmed that the Belting operations would continue at Speke, as would the production of sports goods, provided in the latter case that government assistance was forthcoming and that productivity improved.

The unions now appeared to realise that there was little prospect of retaining tyre production at Speke. Whether or not the factory could make profits on reduced volumes and lower staffing levels was now purely "academic". Dunlop was determined to reduce its dependency on tyres; investing much needed capital in Speke was not a question the company was prepared to consider. The manual trade unions at the plant therefore decided that a new approach was needed. If the company was not prepared to invest in new tyre manufacturing equipment, perhaps it might be willing to introduce new products to Speke.

Alternative Products

The tyre plant was scheduled to close on 19 April 1979, after a 90-day battle to save it. The Joint Action Committee of Shop Stewards had done everything they could to maintain tyre production at Speke. Dockers at Liverpool and Southampton demonstrated their support by refusing to handle goods and raw materials bound for the plant. Ford workers at Halewood had similarly "blacked" Dunlop tyres. Trade union leaders, meanwhile, declared a "Day of Action" on 11 April for all Dunlop workers, as a show of solidarity, while the wives' of striking workers demonstrated outside Transport House, Tory Central Office and the Employment Department.

Faced with this mounting pressure, the company agreed to form a joint management-union working party to investigate possible alternative products to produce at Speke. Its terms of reference were:

> "To examine the possibility of introducing new products to Merseyside in the light of the closure of the tyre factory at Speke, and to report back within 3 months to the company and the National Officers of the Trade Unions concerned" (Speke Joint Shop Stewards Committee, August 1979, p.i).

To assist them to draw up their product proposals, the shop stewards contacted a number of sympathetic academics and trade unionists. The bulk of this assistance was provided by Tony Lane and some of his colleagues at Liverpool University, together with the staff at the Centre for Alternative Industrial and Technological Systems (C.A.I.T.S.), a unit which had been set up and jointly run by the Lucas Aerospace Shop Stewards Combine. Once the information had been collected, Dunlop allowed two shop stewards, Junior Dutton, the

Secretary of the Engineering Shop Stewards Committee, and Arthur Todd, the Engineering workers convenor and the Chairman of the Dunlop Engineering Workers National Combine Committee, one week off to allow them to prepare their report. This can hardly be considered a sufficient amount of time to prepare an in-depth detailed analysis, especially if it was seriously intended to form the basis for creating new jobs at Speke.

The document, entitled "Dunlop; Jobs for Merseyside", was produced in August 1979, based on an analysis of the company's operations and a preliminary investigation of possible products to be manufactured on Merseyside. Although the time available severely limited the depth and range of issues covered in the report, it did confirm, albeit too late, the findings of Tony Lane's earlier report that the market prospects for tyres was very gloomy and, furthermore, that jobs in other Dunlop factories were also in jeopardy from the falling demand for tyres, and the company's strategy of reducing its dependency on the product.

Product Proposals

The main emphasis of the report was to put forward a number of product proposals that Dunlop might consider producing on Merseyside. The trade unions had previously suggested a number of possible products, including: sticking mats for hospitals and computer rooms; glass-reinforced plastic boats; sportsfield covers; roadside furniture; mechanical handling equipment; specialist tyres; and a host of general rubber goods. Dunlop had rejected all of these suggestions because they

were not profitable (see Reeves and McGovern, 1981, Appendix E, pp. 99-100).

In this document, the trade unions identified several products for immediate production on Merseyside. The most novel of these ideas was a design for a Bike/Trike, invented and designed by staff from the Open University. Its originality lay in the way that the bike could be converted into a trike for carrying shopping, luggage or other load-bearing tasks. It was also designed to avoid special purpose-built machinery, so that the tooling-up costs would be minimal. In the short-term, the report proposed that Dunlop should produce the frame and buy-in the necessary components, leaving the factory to do all the assembly work. In the medium-term, it was planned to design and build a new type of wheel in-house, using TP polyester. The project was costed on the basis of assembling 7,500 bikes and 1,500 trike conversions a year. Taking into account the limited financial information produced, estimates show that if the sales price of the bike was £80 and the trike £120 (comparable to standard machines on the market at the time), profits in the region of £66,000 could be expected, excluding start-up costs. However, in the absence of a feasibility study and detailed market research, it is difficult to estimate what level of sales could reasonably be expected.

A second novel product advocated by the Working Party was an inflatable jack. This was a rubber bag that could be inflated from the vehicle exhaust, allowing it to be used safely on all surfaces. By comparison the standard jack is generally unsuitable on roads covered with snow, ice, mud, gravel, sand and uneven surfaces.

In the longer-term, to increase employment on Merseyside, the Working Party recommended that Dunlop should carry out feasibility studies on a wide range of products. These proposals were listed under four main headings: Engineering products; Container fabrication; Medical products; and 'Xetal' based processes. Included among these products were an oil centrifuge, buoyancy tanks and bags, dracones, micropore adhesive tape, machinery guards, and so on.

The main aim of the report was to put forward products that matched the skills, expertise and experience of the Speke workforce. Initially, it was proposed that those workers producing the Bike/Trike and inflatable jack, should be largely semi-skilled. In the longer-term, skilled craft, technical, design and engineering workers would be required to advance these products, as well as to work on the latter group of products, incorporating both engineering and rubber processes.

The Working Party was particularly concerned to protect and enhance job prospects at other sites, most notably Fort Dunlop and Inchinnan. Therefore, a number of product proposals were raised for the company to consider producing in these plants. Rubber based petrol tanks was one ingenious suggestion which, hopefully, would be safer in the event of an accident. Another was the use of dunlopillo, in combination with a suitable film, that could be used in the treatment of patients suffering burns, or other long-stay patients, to prevent them getting bedsores which, it was estimated, costs the NHS £60 million a year. And lastly, the shop stewards were concerned to make greater use of the many millions of tyres that are discarded each year. Speke

already possessed one of the only two rubber recycling plants located in the UK. It was proposed that Dunlop should investigate the possibility of using rubber crumb for cement production, and as a basis for rubberised asphalt surfaces. Research carried out in the United States had shown that the use of rubber in road surfaces could prolong its life, and cut down on necessary maintenance.

The report contained no detailed market research or business plans, so it is not possible to assess whether any of these product proposals could have been produced profitably on Merseyside or any of the other Dunlop factories. The shop stewards did not have the expertise or the time to carry out any feasibility studies. They saw it as a management function to report back on the potential and financial viability of their product proposals. This is the nub of the matter. How far can trade unionists realistically come up with product suggestions that have been overlooked by management? It is true that the experience and ingenuity of shopfloor workers can lead them to suggest ways of improving the production process; hence the emphasis placed by Japanese companies on quality circles? It is true that during a "brainstorming" session an unorthodox approach may lead to new uses being found for old products. Nevertheless, it is management who decides how much will be invested in developing new products, and this is determined purely by the profits expected to be earned; a prerogative of management which lies outside of the control and influence of the trade unions.

It is evident that Dunlop saw the Working Party as a means of placating the unions, and diverting unfavourable criticism away from the

company following the closure of the Speke tyre factory. Management may have believed that if the unions were preoccupied with other pursuits, they would have less time available to direct and sustain the industrial and political pressure on Dunlop. In this respect they were relatively successful because it appears that Dunlop had no intention of investing in new products. On the contrary, we shall see that management's plan was to rationalise its product range and close down factories.

Summary

These three reports produced by the trade unions, with their diversity of approach and analysis, demonstrates both the extraordinary lengths to which trade unionists will go to protect their jobs, and the limitations of trade union action. The three documents produced are by definition defensive in nature, though not negative in purpose. The shop stewards attempted to use the reports to mobilise support against closure, both inside and outside of Dunlop, and in addition they were prepared to use them as a basis for negotiations, for want of anything better. Their involvement in producing these reports also served as a useful education and conscious-raising exercise for the stewards. For example, discussions with workers in other Dunlop plants about possible new products, elicited roughly 40 proposals, that were finally whittled down to a handful. This encouraged ordinary workers to talk and think about these products, and to question narrow conceptions of trade unionism.

Later the Dunlop stewards met with trade unionists from Lucas Aerospace, where they were exposed to the latter's ideas of developing

workers' plans. The stewards, however, realised that they neither had the time nor were they in a position to draw up an alternative corporate plan, as the Lucas stewards had managed to do. Their sights were set much lower. Through their meetings with sympathetic academics, the Dunlop stewards were able to collect and analyse a substantial amount of information about Dunlop. Without the help of these academics, two of the three reports would never have been prepared; the exception being that drawn up by the ASTMS Executive Group. Most of the information used came from publicly-available sources, including stockbroker reports, trade magazines, specialist journals, government statistics, and industry statistics produced by the Employers' Federation. Other information was collected from internal sources, such as briefing sheets, company documents made available for communication purposes, and individual and collective knowledge of the plant.

None of the academics assisting the trade unions were accountants or specialists in business or corporate strategy. Hence, their analysis of company policy was not explored in the same detail as that which is to be presented in chapter 5. Nevertheless, the reports were able to diagnose the effect that the declining earnings from tyres were having on profits. The report, for example, prepared by Tony Lane on behalf of the Joint Trade Union Action Committee, concluded that in the absence of a very large injection of capital into the UK plants, they would become uncompetitive vis-a-vis the European and American producers, and that this would ultimately lead to Dunlop withdrawing from the volume tyre market in the UK (Dunlop Spekes, 6 April 1979, p.6).

Tony Lane reached the right conclusions, although he appeared to have no specific view when this divestment might take place. Moreover, he did not question whether investment, though necessary, would be sufficient to make the Dunlop factories competitive. Clearly it was not, and by now it was far too late for the unions to prevent Dunlop implementing the next phase of its plan, which was to sell off its tyre-making facilities.

Nevertheless, there can be little doubt that all three reports served a useful purpose, both as a propaganda exercise to exert political pressure on Dunlop - the company perhaps believed that bad publicity relating to job losses could adversely affect sales - and in allowing the unions to challenge management policy. The unions were not, however, able to use their reports as a basis for negotiations; management were not prepared to reconsider their closure decision. The only avenue open to the unions was to try and persuade Dunlop to introduce new products to Merseyside, which the company was clearly not prepared to do. All multinationals employ marketing and corporate policy specialists, whose jobs are to bring new products to the market and to find new customers for the existing product range. There was little prospect, therefore, that the unions, in a comparatively short time period, could have come up with potentially profitable products that had been ignored or overlooked by Dunlop.

The trade unions also expected Dunlop to reject their proposals, because they were in an extremely weak negotiating position, with most of the workforce having accepted redundancy payments when the tyre factory closed in April 1979. As the shop stewards were preparing their

report on "Jobs For Merseyside", they were informed that the remainder of the workforce, who had been fighting to get the factory re-opened, had agreed redundancy terms. It would appear that the idea of alternative products carried little conviction with the remaining employees, who were convinced that closure was inevitable. In July 1980, the golf ball production facilities at Speke were closed down.

The reports did, nevertheless, make other workers employed by Dunlop aware of the threat to their jobs. The Engineering combine, a body representing all AUEW members throughout the company, responded by requesting further information from management on the company's future plans, and the impact that the introduction of new technology was expected to have on jobs. The threat to jobs also encouraged greater co-operation between the manual and white collar trade unions, leading to regular meetings between representatives from all the major factories. These responses were, however, too late to have any possibility of influencing management policy.

One of the principal themes to come out of this episode, certainly as far as the shop stewards were concerned, was a realisation of the importance of "accounting information". The stewards could see that unless there was a systematic collection and analysis of information, the unions would always be in a position of having to respond to events. They also recognised that the traditional defensive role of the unions was largely responsible for the limited use made of financial and commercial information. In this respect they wrote that:

> "The various regional grants, employment subsidies and so on have guaranteed profits, but not jobs. Our experience of fighting for the 2,400 jobs at Dunlop have brought us to

> the conclusion that the only hope of shifting the priorities of production decisions towards meeting the needs of working people, is for trade unionists themselves (with the support of the communities in which they live) to exert greater control. In one sense this is not new. From its origins trade unionism was about resisting the power of the employer in order to defend the interests of the worker. But in general this resistance and control has been limited to wages and conditions. This preliminary report and proposals is based on the idea that trade unionists can and should extend their bargaining power to investment decisions and production decisions. This report is, in a sense too late. We should have been investigating and bargaining for alternatives before the closure decisions were announced. We ourselves at Speke no longer have much bargaining power; but with the support of the wider trade union movement, on Merseyside, in Dunlops and nationally we hope our jobs can be saved and further jobs created" (Speke Joint Shop Stewards Committee, August 1979, p.6.2).

However, although some trade unionists appear to have learnt from the closure of Speke, it soon became evident that the national union leadership had failed to do so.

The Divestment of the European Tyre Operations

The trade unions were now "deeply concerned" about the employment prospects of workers in the tyre sector and, more specifically, those employed by Dunlop. On 9 January 1980, the Dunlop Rubber Workers Joint Committee met to "share their concerns" and to "discuss a plan of action". Committee representatives urged that a meeting between the company and senior union officials was imperative. The Committee also proposed that a joint company-union body, with lay representatives, should be established for the express purpose of discussing general economic, marketing, and investment policies (Bulletin on Dunlop Ltd, January 1980, No.23, p.1). Dunlop management, however, refused to

discuss these issues with the unions and were not prepared to contemplate the formation of a joint forum. Obviously, management were in a very strong position, and could see no benefit in discussing company strategy with the trade unions.

Spurred on by the deteriorating position of the rubber industry, delegates at the GMWU National Rubber Conference, voted to press companies for more information and to establish "suitable arrangements" for discussions on investment, market trends, production and other corporate decisions. This policy was subsequently endorsed on 19 September 1980 by the Rubber Unions Joint Committee, and on 8 October 1980 by the Dunlop Rubber Workers Joint Union committee. On 13 October 1980, Alan Lord, the Managing Director of Dunlop, accompanied by other senior managers, finally agreed to meet with trade union officials. The union officers "urged" on the company the need to establish a "National Joint Body, to discuss investment and future strategies". The necessity of such a body was spelt out:

> "The purpose of our proposal is not to interfere with the traditional collective bargaining issues which are catered for by separate arrangements with unions, but to extend the dialogue which is already in evidence at divisional and plant level. Currently, discussions take place on "the state of the business" but much of it relates to general strategies determined at the very senior level of Dunlop. If such exchanges are to be worthwhile and productive it is, in my judgement, crucial that the avenue for discussion be extended to the top. A structure which begins and ends at Divisional level obviously earns a degree of suspicion and even disinterest. If we are to develop sound relationships on the varying problems which we acknowledge exist, a facility such as a Joint Council (or any other name!) where senior lay union representatives can discuss the overall policies and intentions of Dunlop is more than necessary" (Bulletin on Dunlop Ltd, October 1980, No. 26, p.2).

Alan Lord rejected any notion of establishing a national body, but he assured the unions that Dunlop would "discuss future plans" with them. Five weeks later, in December, without consulting the unions, Dunlop announced that several thousand more jobs were to go in the tyre and footwear divisions. The first that the unions heard of the announcement was in the Press (Bulletin on Dunlop Ltd, December 1980, No.26, p.1). This only contributed to the already "strained" relations between the two sides.

During 1981, industrial relations at Dunlop continued to deteriorate. Overtime bans were in operation in a number of plants, while others had held ballots authorising industrial action in response to the failure of management to resolve outstanding grievances relating to pay, conditions, manning levels and the infringement of agreed procedures. Against this background, senior management held two meetings in London, in March 1981, with senior shop stewards to discuss these problems. The unions agreed to these meetings, but insisted that they were no substitute for "properly constituted" meetings between national union officials and the company.

The idea of a multi-union "National Joint Council" had gained acceptance beyond the RUJC and DRWJUC, and was now supported by all the major unions at Dunlop. The obstacle facing the unions was that no mechanism or structure existed to negotiate on matters lying outside local arrangements, so that when the unions tried to raise these issues at national level, they were normally informed that these should be dealt with at divisional level. However, no procedures had been established for joint negotiation at this level (Bulletin on Dunlop Ltd,

April 1981, No.28, p.2). Thus management had manoeuvred the unions into a position where they were unable to influence decisions outside of the immediate plant.

A year later the unions were still in the same position. On 4 March 1982, a special meeting of the DRWJUC was called to discuss the deterioration of industrial relations in Dunlop, and to consider steps necessary to resolve this problem Convenors and full-time regional officials of both the TGWU and GMWU were also present. The unions accused the company of "contravening existing agreements", and of trying to force through changes in working practices without agreement (Bulletin on Dunlop Ltd, March 1982, No.29, p.2). Consultation had been replaced by threats and ultimatums had replaced negotiations. The DRWJUC decided that if the company refused to meet with unions at national level to discuss their grievances, then a nationwide strike would be called. A letter to this effect was despatched to Allan Lord on 5 March 1982. No response was forthcoming from the Managing Director, whereupon David Warburton issued a press release on behalf of the DRWJUC, on 11 March 1982, threatening a national strike if the company refused to meet with the unions. David Warburton and John Miller had previously met with Charles Levinson, Secretary General of the International Federation of Chemical, Energy and General Workers' Union (ICEF), to secure support from Dunlop workers abroad, so that work normally produced in the UK would not be transferred overseas (Bulletin on Dunlop Ltd, March 1982, No.29, p.5).

Faced with the threat of industrial action, Dunlop agreed that henceforth the company would discuss matters of concern with the unions.

That October a meeting was held between senior management and national union officials, where the unions were assured that the company was planning no "new rationalisation proposals at present" (Bulletin on Dunlop Ltd, November 1982, No.31, p.1). However, on 5 November 1982, the unions learned from radio and television, that major cutbacks were planned at Fort Dunlop and in the North East. The unions once again were neither informed nor consulted in advance (Ibid, p.2).

On 17 June 1983, representatives of nine unions met with senior management to "raise major issues of concern to the labour force", in particular "investment and job security". The company was not prepared to give any "categorical assurance on jobs", but management assured the unions that they would be consulted on any plans that were made. The unions were also informed that the Board had made no decision on the future of Fort Dunlop, and that no plans would be formulated for at least four to five months (Bulletin on Dunlop Ltd, June 1983, No.32, p.1). These statements were clearly untrue, for on 22 September 1983, Dunlop announced that it was selling its European tyre operations to Sumitomo of Japan. Once again the unions had been taken completely by surprise, and union leaders could do little more than protest and make vague noises about possible "industrial action".

Conclusions

The trade unions were not prepared for plant closures. As we have seen, most trade unionists believed that Dunlop was preparing to reduce its workforce, in response to the overcapacity in the industry. This knowledge did not lead to a union response or strategy, presumably

because job shedding in search of efficiency and profits was accepted as an everyday occurrence in a capitalist society. The closure of a whole factory, on the other hand - at that time - was a new phenomenon.

Although the unions put pressure on Dunlop to reverse its plans, they realised that they were in an extremely weak negotiating position, with little prospect of thwarting management's plans through industrial action. Thus, alternative plans drawn up by the unions demonstrate, on the one hand, the ingenuity of the stewards in responding to a crisis situation whilst, on the other, they reveal the lack of planning and strategy on the part of the unions, and perhaps their desperation.

It is clearly inconceivable that these plans could have persuaded management to alter their strategy. The trade unions had left it far too late. Dunlop was now proceeding to implement the final stages of the policies, which we shall see had evolved over the course of the 1970s. Because the unions had not monitored and analysed Dunlop's corporate strategy, they were unaware that plant closures were being planned, and that ultimately Dunlop intended to divest itself of its European tyre facilities. This lack of foresight essentially left the unions powerless to predict, and hence to respond effectively to management policy. Yet as we shall show in the next chapter, all the necessary information was publicly available. All that was required was a commitment from the unions to analyse it.

CHAPTER 5 - DUNLOP'S STRATEGY: THE INFORMATION PUBLICLY AVAILABLE TO THE TRADE UNIONS

In this chapter we shall examine the corporate strategy of Dunlop, the major British tyre manufacturer, to see how the company responded and adapted to the changing market conditions. All the information used in this analysis is from published sources. On this basis, the following analysis could theoretically have been carried out by the trade unions. The main skills required to do this are a working knowledge and understanding of the techniques of financial analysis.

Some Recent Economic History

Before we examine the key factors which led to the run-down of the British tyre sector and, ultimately, to Dunlop's divestment of its tyre facilities, it is necessary to set it in the context of the postwar decline of British manufacturing industry.

At the end of the Second World War, with much of manufacturing industry in Europe and Japan destroyed, British industry quickly responded to the rapid growth in worldwide demand, and established itself as the world's second largest producer behind the United States.

Meanwhile, our European competitors and Japan embarked on a programme to rebuild their industrial base, by investing large sums in modern plant and technology. Here, they were assisted by British investors, who rather than invest in restructuring the domestic

industry, found it more profitable to squeeze as much production and profits from the heavy war-time investment in British industry, while diverting surplus funds into more lucrative overseas investments (Bryer et al, 1984a).

The failure to invest in modernising and restructuring British industry eventually left the domestic manufacturers producing goods in old, obsolete plants, while our overseas competitors operated modern manufacturing facilities. This allowed our foreign competitors to produce superior products, which were considered more reliable and desirable by consumers. Their products proved more competitive than British goods, especially in the important area of non-price factors (Panic, 1975; Posner and Steer, 1979), because consumers were prepared to pay higher prices for better quality foreign goods.

Britain fell particularly behind in the more technologically advanced industries: vehicles, engineering and chemicals, but less so in the less technological advanced industries, metals and textiles (Begg and Rhodes, 1982, p.20, table 2.4); leaving Britain dependent on low value added exports.

The net result was that British goods began to suffer a fall in their share of world trade, whilst imports started to capture a growing share of the home market. Between 1950 and 1980, the UK's share of manufactured exports fell from 25.5% to 10.2% (Brown and Sheriff, 1979, p.241, table 10.5 and National Institute Economic Review, No.96, May 1981). Imports, meanwhile. increased as a proportion of home demand from 8% in 1955 to 30% in 1980 (Williams et al, 1983, pp.118-119, table 4).

The main source of these imports was the European Community, which increased substantially especially after Britain joined the EEC (Thirlwall, 1982). This is because firms have found it more profitable to supply the home market with exports from Europe than to maintain or establish new factories in Britain (Dunning, 1979). Whereas UK firms, on the other hand, have tended to exploit the European market by establishing or expanding production facilities there, as opposed to relying upon exports (Ibid).

Thus, over the postwar years most of the investment in British industry has been to replace worn-out plant and machinery, rather than to expand production by investing in up-to-date technology (Wilson Committee, 1980). Since British production facilities were older compared to our major competitors, they were also less productive and less profitable.

As far as investors were concerned, investing in foreign manufacturing industry offered a far higher net real rate of return over the postwar period, than could be earned from investing in British industry (British Business, 19 August 1983, p.22). Hence, investment was channelled overseas.

By the beginning of the 1970s, investors recognised the need to modernise British industry (Bryer et al, 1984a). However, these plans were curtailed by the oil crisis in 1973-74, which led to a doubling in the cost of oil imports into the UK. Investors realised that with world overcapacity in many manufacturing industries, combined with Britain's dependence on obsolete production facilities, profits from British

industry would decline.

Many firms responded by cutting back or by abandoning their investment plans. This is confirmed by the valuation ratio (market value of equity plus debt/replacement value of trading assets) which declined from 1.09 in 1973 to 0.62 in 1974 (calculated from Wilson Committee, 1980, p.144, table 37). The valuation ratio then recovered, but fell back to 0.67 in 1979, following in the wake of the second oil crisis.

Investors now wished to speed up their plant closure plans to limit the losses expected to arise from the recession. These plans were greatly assisted by the election of a Conservative Government in 1979, whose policies of high interest rates, accompanied by the abolition of exchange controls, assisted the outflow of funds into foreign investments.

Thus, while investors' interests were protected by successive governments, workers' interests were not. The outcome of these policies was a large decline in employment in manufacturing industry, from a peak of 9.1 million in 1966 to 5.4 million in 1982 (calculated from Thirlwall, 1982, p.25, table 1 and Department of Employment Gazette, December 1982), with more than 40% of the job losses occurring after 1979.

Bryer et al (1984a) noted that 27 firms were alone directly responsbile for the loss of 433,000 jobs. Amongst these major "unemployers" were the vehicle and components companies, including Dunlop and British Leyland. In the following sections we shall trace the policies and events which led Dunlop to formulate its strategy of divestment and plant closures.

Dunlop's Strategy : Maintaining Market Dominance

From the late-1920s up to the mid-1950s, Dunlop adopted two main strategies to maintain its dominance of the domestic tyre market: mergers and price restrictions. Dunlop initially embarked on a series of horizontal mergers to secure control over its raw materials and component supplies. To counteract the attempts by the American and Continental companies to establish new outlets for their tyres, Dunlop started to covertly acquire a controlling interest in a number of tyre distribution companies during the late-1920s - and actively pursued this policy for the next two decades.

Controlling interests were purchased in W. Briggs & Co Ltd and the Marsham Tyre Co Ltd, so that by the mid-1950s Dunlop had a retail network covering the whole of Britain. These companies tended to stock about 30-35% of Dunlop tyres (Monopolies Commission, 1955, p.89). And as they sold directly to the public as well as to the trade, it provided Dunlop with guaranteed sales at both the wholesale and retail level, as well as with information about the selling methods of its competitors.

Additionally, Dunlop tried to restrict competition in the domestic market through enforced price maintenance. The company played a prominent role in establishing the Tyre Manufacturers Conference, which was instrumental in restricting competition by establishing an identical retail price for the same size and type of tyre sold in the replacement market. Sales in the original equipment market were in the main, however, not subject to any price restrictions, though sales to the smaller vehicle manufacturers were subject to price guidelines.

Dunlop's strategy appears to have been very successful, as by the 1950s it was supplying more than two-thirds of all car tyres sold for original equipment and, together with its subsidiary, India Tyre and Rubber Co, accounted for 47% of total UK tyre sales by value in 1951 and 1952 (Ibid, pp.38 and 82). But this position was not to last, as the following two decades were to witness a gradual erosion of Dunlop's market dominance.

In 1955, the Monopolies Commission Report on the tyre sector was published. It declared that the maintenance of retail prices and certain other ancillary practices which helped to maintain retail prices in the replacement market were against the public interest and should cease forthwith. The following year the passing of the Restrictive Trade Practices Act (1956) outlawed the collective enforcement of resale price maintenance. This was later strengthened by the Resale Prices Act (1964), which declared resale price maintenance by an individual company to be similarly against the public interest.

Following the publication of the Monopolies Commission Report, Dunlop tried to protect its market position by switching the emphasis from vertical to horizontal mergers (Walshe, 1974), but it proved to no avail. Dunlop's competitors were now aware that the company owned some of their best retail customers. Their response was to try and reduce Dunlop's stranglehold by buying their own distributive outlets. Worse was to follow - as we shall see in the following sections, Dunlop's market dominance was further undermined by the advent of the radial tyre.

The Radial Tyre

The expansion plans of the tyre companies in the late 1950s and 1960s, and their contribution to overcapacity in the industry were compounded by the spread of the radial tyre, which has proved to be the most important innovation in the tyre sector for the last two decades. The radial tyre offers a number of advantages over the crossply tyre, including longevity, safety, durability and better fuel efficiency.

The concept of the radial tyre was first devised and patented in England by Gray and Sloper in 1913, but it was never commercially exploited because the industry at that time lacked the know-how to bond steel and rubber together. It was not until two decades later during the 1930s that the necessary technology began to be developed by Michelin in France. The company started to experiment with steel cord in tyres, and by 1938 Michelin was producing a truck tyre of crossply construction but with a steel cable casing. This initial experience in the truck tyre sector provided technical information, which was to eventually lead to the development of the first steel- belted radial car tyre. Throughout the rest of the thirties and during the war years the company continued to experiment with steel, until finally in 1946, Michelin registered its patent for the steel radial with the French patent office. In 1949, the company went into production of what is now the famous "X" tyre.

There are a number of differences between the crossply and the radial tyre. The crossply is made of four (later two) cord plies running at right angles to each other in a criss-cross fashion and at a

45 degree angle to the tread. The radial by comparison has the plies running perpendicular to the circumference of the tyre. In addition, it has a rigid-breaker structure made of steel cord running between the plies and the tread. It is this structure which gives the radial tyre its longer life span. Radials are also more expensive to produce than crossply tyres because of the cost of steel and the increased labour input needed to align exactly the plies and the steel belt.

In 1953, the radial went on sale in England where it received a mixed reaction. The early versions proved very unsatisfactory in wet conditions, and they were also prone to occasional violent "breakaway", particularly when cornering at speed. It was not until the design of new cars specifically suited to steel radial tyres, that the problem was largely overcome. The first of these models was the Citroen DS with oleo-pneumatic suspension, which came onto the market in 1955-56.

Meanwhile, all of the other tyre companies, with the exception of Pirelli, failed to recognise the significance of Michelin's technological breakthrough. In the early 1950s, Pirelli introduced a textile-reinforced radial tyre called the Cinturato; a technology later licenced to, and adopted by, many other companies, including Dunlop. However, it was to prove an intermediate technology between the crossply and the steel radial.

Initially these companies had little choice because Michelin's tight patent coverage ensured that any competitors going over to radial production had to use a breaker reinforcement made from a material other than steel. It was not until 1967 when the patent for Michelin's "X"

tyre expired, that other companies were able to adopt steel radial technology. By then, however, Michelin had established a considerable technological lead over its competitors, which allowed Michelin to grow from the seventh largest tyre company in 1960 (measured in terms of sales) to the second largest today, just behind Goodyear (Appendix 1, table 3).

During the 1960s, the demand for radials was stimulated by the growth in sales of front-wheel-drive vehicles. Tyres fitted to such vehicles were found to suffer very heavily from wear. The radial, on the other hand, was able to overcome this problem by producing its cornering power at a smaller misalignment angle, so reducing tyre wear.

The radial spread from France and became widely adopted in Southern Europe, gaining somewhere between a quarter and one-third of the replacement markets in Italy and Spain. By 1970 radial penetration in Southern Europe and the Benelux countries had risen to 50% (Brazier, 1981, p.8), whilst in the UK and West Germany penetration was substantially lower. Table 5.1 shows that in 1970 textile radials accounted for nearly 36% of the UK replacement market, which was roughly similar to the position in West Germany.

In Britain, the adoption of radials for original equipment fitment was relatively slow, primarily because the motor manufacturers regarded them as too costly. At that time the radial was about 25% more expensive than the conventional crossly tyre (Observer, 6 May 1973). It was not until Jaguar, Rover and Triumph designed their new models to suit the properties of the radial that attitudes began to change. The

first volume produced British car to use radials was the Austin 1800 in 1964 (Tompkins, 1981, p.38).

Table 5.1 Growth of Radial Tyres in the Passenger Car Market, 1970-76

	OE (%)		Replacement (%)	
	Fabric	Steel	Fabric	Steel
1970	32.3		35.6	
1971	37.9		42.9	
1972	50.3		47.8	
1973	73.9		51.9	
1974	86.6		56.6	
1975	52.5	38.0	40.9	25.0
1976	35.0	55.0	40.9	30.0

Source: Tyres & Accessories, November 1976, p.40.

In the UK the demand for radials initially came from the replacement market because OE fitment was still restricted by cost (Tyres & Accessories, November 1976, p.40). Indeed, table 5.1 reveals that it was not until 1972-73 that fabric belted radials became the dominant fitment in the OE market. The British tyre manufacturers, in the main, opted to produce the fabric or textile radial as opposed to the steel version. A key reason was that it was comparatively cheaper to convert production to the former than invest in expensive steel radial technology. Additionally, the fabric radial offered the twin advantage of a more controlled breakaway than the steel radial and, more importantly, it could be used on cars of earlier design (Tompkins, 1981, p.101). In other words, the motor manufacturers were not planning any new large-scale investment in the British motor industry, and were therefore anxious not to incur the "unnecessary" expense of redesigning the suspension and steering mechanism of their cars to suit the steel radial. However, this policy proved short-sighted, and the reliance on

outdated technology, eventually paved the way for the influx of crossply and cheap fabric radials from Eastern Europe (Business Week, 6 October 1978, p.65).

Unfortunately for the tyre manufacturers, the spread of the fabric radial in the original equipment and replacement markets, coincided with the first oil crisis in 1973-74. The cutback in vehicle mileage combined with the higher mileage capability of the radial caused the replacement market to dramatically shrink in size. The replacement market was further depressed by the adoption of the steel radial in 1975 (see table 5.1) with its guarantee of even greater mileage: the feasible life of a crossply tyre is 18,000 miles compared to 28,000 miles for a fabric radial, and 40,000 miles for a steel radial (Tyres & Accessories, January 1980, p.24).

Thus, the over-dependence on outmoded crossply and fabric radial technology left the UK industry not only vulnerable to cheap imports, but also severely disadvantaged when market demand switched to steel radials. The British tyre producers were left facing the twin dilemma of a European industry holding surplus capacity, with themsevles holding a considerable amount of redundant capacity. In fact, the UK was holding the largest share of European crossply production - in the order of 12% (SRI, 1980, p.34). Inevitably, these were among the first tyre plants to be closed.

The tyre companies now faced the task of investing in steel radial capacity to meet the anticipated market needs, but once again circumstances were to intervene to upset these plans. The tyre

producers were fairly accurate in planning the switch into steel radial production, as far as the replacement market was concerned. However, the forecasters did not allow for the continuing decline in British produced cars and the consequent rise in imports. According to Peter Taylor, the Marketing Manager of Firestone:

> "As little as three years ago we were forecasting 1979 UK car production at between 1.5 and 1.55 million and imports of about 550,000. What happened was a fall in UK car production to £1.22 million; a rise in registration from the forecast 1.55 million to 1.7 million; and a growth in imports from 550,000 to 960,000" (Tyres & Accessories, 1981, p.29).

Moreover,

> "(b)ecause of the reduction in UK car manufacture, the tyre industry had held back on plans to expand steel belted radial production capacity.....The challenge most manufacturers faced was to invest in conversion (to steel radial) capacity rather than additional capacity at a time when overall profitability was so low as to make this almost impossible" (Ibid).

Consequently, as the demand for steel radials expanded, there was insufficient capacity in the British facilities to meet it, and so the manufacturers responded by importing tyres from their continental plants. It now became imperative for the tyre companies to close down any obsolete production capacity.

Loss of Market Share

As the radial tyre began to take an increasing share of the European market; Dunlop, for almost the first time, was forced to follow in somebody else's technical footsteps, and re-equip at enormous cost with radial technology. Initially, textile radial manufacturing

equipment was bought from Pirelli, with whom Dunlop had developed close ties, and later in 1969 capacity was expanded by the purchase from Avon of its new factory at Washington, County Durham.

> "Dunlop plunged into a conversion whose huge cost was essential for defensive reasons alone. Although its market share has changed little, at around 40% in the UK, that share would have dropped catastrophically (still more in Europe) without the radial. New investment was essential, for the method of radial construction is quite different from (and the cost intrinsically higher than) that of the conventional crossply type" (Heller, 1969, p.64).

However, in the long-run this did not prevent Dunlop from losing market share. Between 1971 and 1982, Dunlop's share of the car tyre replacement market fell from 35% to 17%, whilst Michelin increased its share from 13% to 23% (Appendix 1, table 25). Dunlop's share of original equipment sales also fell from around two-thirds of the passenger car tyre market in the early 1950s (Monopolies Commission, 1955, p.38) to 29% in 1979. Meanwhile, Michelin increased its share of the OE segment to 31%. By 1982, however, Dunlop had regained its position as the main OE supplier by acquiring a substantial share of the business lost by Firestone, through the company's divestment from the UK. This allowed Dunlop to increase its share of the market to 34% compared to 31% for Michelin (Rubber Trends, No. 99, September 1983, p.38, table 13).

Clearly, one of the key factors responsible for Dunlop's loss of market share was its late entry into radial production. According to Newman (1982):

> "The traditional criticism has been, first, that Dunlop was too slow in switching from conventional crossply types to radials in the mid-1960s (in fact, the company continued to make some crossply tyres in the UK until last year); and, second, that having started to switch to radials, it made the wrong technological choice - and plumped for textile radials (which then had better performance in the wet), rather than the more durable steel variety. In the early 1970s Dunlop did start converting from textile to steel; by that time, Michelin had already carved out its market leadership" (p.52).

Another factor responsible for Dunlop's loss of market share, particularly in Europe, was competition from the American manufacturers. Until the late 1960s the European tyre market was extremely fragmented, with the European tyre companies being largely nationally based. The more marketing orientated American companies, on the other hand, were quick to take advantage of the opportunities offered by the development of the EEC, and began to expand their operations throughout Europe. By 1969, there were 29 US subsidiary plants operating in Europe (Harkleroad, 1980b, p.6). This gave the American companies a far greater amount of commercial and marketing flexibility. Of the European companies, only Dunlop and Michelin with plants in France, West Germany and Britain were able to match the international operations of the Americans.

Through expansion and by developing trading and technical agreements with the smaller European companies, together with their links with Ford, General Motors and Chrysler, the American tyre companies were able to win a combined share of the European market of 25-30% by 1970 (Financial Times, 16 July 1971). The American operations in Europe were, however, equipped essentially to produce crossply tyres, though all of them had at least one line of radials on offer by 1968

(Harkeroad, 1980b. p.6). In spite of the fact that their radials were considered inferior to those produced by Dunlop, Michelin and Pirelli (Financial Times, 16 July 1971), the American tyre manufacturers proved very adept at increasing their market share.

The Dunlop-Pirelli Union

To counter the threat posed by the American tyre companies, a number of European manufacturers sought defensive mergers or tried to establish similar groups and alliances.

On 1 January 1971, the Dunlop-Pirelli Union came into being, which made the new tyre group the strongest in Europe, with roughly 24% of European sales compared with Michelin's 23%, Goodyear's 12% and Firestone's 9% share of the market (Financial Times, 16 July 1971). This made the group the third largest tyre manufacturer in the world behind Goodyear and Firestone. Half the annual turnover of the Union was derived from tyres, giving the group a strong competititve position in every major European tyre market. The complementary geographical spread of the two companies was also fortuitous; the only overlap was in Britain and Germany. This is because Dunlop concentrated its expansion in the United States and the Commonwealth, while Pirelli expanded in Southern Europe and Latin America. One benefit of this was that there was little need to shift and change the existing management.

The two companies believed that the merger was the logical response to the changes taking place in their industries, and world markets. It was considered the rational response to the American

challenge which, during 1969, when discussions were taking place, was a major concern. This was especially so for companies like Dunlop and Pirelli, who were keen to compete with the Americans on a world-wide basis. But by 1971, the American companies were no longer a serious threat in the European market. Nevertheless, it was envisaged that the competitive strength of the two companies would be enhanced by the merger in several ways:

"(i) Dunlop and Pirelli each manufactures and sells internationally and is a leader in fast-growing product lines many of which, like tyres, are common to both. Together, the two groups, which have a combined turnover of nearly £900 million, will be able to use their existing facilities more effectively: they will be able to obtain the benefits of larger scale with consequent economies in supply and production, and to gain from common services.

(ii) the various major industries in which the two groups operate are characterized by a rapid rate of technological development. Each group spends about £8 million annually on research and development and has a distinguished record of technical achievement, but their joint capacity to innovate and exploit the results of research and development will be greatly improved by bringing together their two programmes, their skills and flairs.

(iii) The Groups are complementary in their geographical spread, so they bring to each other territorial diversification with a consequent spread of risks, and so a better opportunity to grow with their global markets. Dunlop will acquire a greater stake in Italy, Southern Europe and Latin America; Pirelli in the United Kingdom, North America, Africa, Asia and Australasia.

(iv) The greater product range of the combined group will be beneficial both in spreading risks and in mitigating the effects of cyclical fluctuations affecting existing products of either partner.

(v) The combined resources and commercial "know-how" of the two Groups will make possible greater penetration of markets all round the world in a greater range of products.

(vi) Together the two Groups will be in a stronger position to raise outside finance for expansion.

In brief, the prospective advantages make this a union for growth and expansion" (Dunlop, December 1970, p.3).

The reasons for the Union were sound enough from management's viewpoint. Both Dunlop and Pirelli were formerly too dependent on their respective home markets, which in a normal year accounted for two-fifths of turnover and one-third of profits in each case (Crawford, 1972, p.227). In turn, Dunlop and Pirelli depended too heavily on one major customer to generate profits in their home markets: BLMC and Fiat respectively. Sales of new cars in the UK had already been stagnating since the latter part of the 1960s. Then in 1970, Dunlop suffered a long strike at Fort Dunlop which caused the UK operation to experience a loss for the first time; in the region of £3 million. To make matters worse British Leyland, as a result of the strike, adopted a policy of dual sourcing so that it would not be vulnerable to similar industrial action in the future. Previously, Dunlop had been the sole supplier of tyres to the company.

Industrie Pirelli also suffered a major loss of business with Fiat, its major customer, when Fiat purchased a 25% stake in Citroen in 1969. The latter was controlled by Michelin at that time, who subsequently took a large slice of the Fiat contract away from Pirelli.

The Union was arguably, however, ill-conceived from the very beginning. Part of the reason for Dunlop entering the merger was to gain access to Pirelli's technology and "know-how" in the production of textile radials, which in the event proved to be an intermediate technology as the market shifted to steel radials.

Additionally, an analysis of the financial statements of Dunlop and Pirelli, prepared in accordance with the common accounting principles, plus the pro-forma Union accounts (Appendix 2) reveals that the two companies were in a weak and deteriorating financial position. The pro-forma Union profit and loss account shows that sales were starting to slow down after 1967, whilst operating profits fell from £63.6 million in 1968 to £57.2 million in 1970. The substantial increase in interest charges also caused attributable profits to drop from £23.1 million in 1968 to £10 million in 1970.

Worse was to follow when in the first year of trading, Pirelli's Italian subsidiary suffered an unprecedented slump, declaring losses of £18.6 million under the common accounting principles. The weak trading position was further undermined by the oil crisis, and the resulting overcapacity and stagnation in the European tyre market. When Pirelli's trading position started to improve towards the end of the 1970s, Dunlop found itself suffering large losses from its European tyre operations. Pirelli, meanwhile, was unwilling to finance the necessary investment needed to modernise its partner's operations.

By 1981, the heavy losses from the tyre operations had eliminated the share capital and reserves of Dunlop Ltd. With Pirelli unwilling to subscribe any new capital to reconstruct the company, Dunlop was left to bear all the losses, whilst Pirelli was entitled to share in the profits from Dunlop's overseas operations.

The original aim of the Union was to create a single business entity, but this was becoming increasingly difficult to realise.

Accordingly, both companies agreed that it was in their mutual interest to dissolve their partnership; this was duly announced to The Stock Exchange and the press on 23 April 1981.

Summary

Dunlop's strategy to protect its market dominance was to engage in a series of vertical and horizontal mergers. This policy appears initially to have been successful, because the company was able to retain its leading position in the British market. However, the opening up of the domestic market to more competition following the publication of the Monopolies Commission report, exposed Dunlop's weak competitive position. The failure of Dunlop to invest in modern plant and machinery left the company heavily dependent on obsolete crossply production, at a time when the market was switching to radials.

Dunlop tried to protect its market position by forming a merger with Pirelli, to acquire direct access to the Italian company's technological "know-how", while also providing the Union with the financial strength to compete with Michelin and the American companies on a global basis. However, the inherent financial weakness of Dunlop and Pirelli, undermined the synergy of the Union from the very beginning, as neither company was prepared to sustain the losses of the other in order to pursue the aims and objectives of the merger.

Table 5.2 Estimated Tyre Production Capacity in Western Europe, 1964 and 1969[1] (daily units '000s).

	U.S. Companies										European Companies									
	Firestone		Goodyear		Uniroyal		Goodrich		Other		Dunlop		Michelin		Pirelli		Other		Total	
	1964	1969	1964	1969	1964	1969	1964	1969	1964	1969	1964	1969	1964	1969	1964	1969	1964	1969	1964	1969
France	4	7	4	9	6	9	16	-	30	-	19	19	48	104[2]	-	-	2	4	99	151
Germany	9°	14°	9	16	5	10	-	-	30	45	15	25	2	13	8	9	30	60	84	192
Sweden	2°	6	6	9	2°	4°	5°	6°	-	-	-	-	-	-	-	-	-	0	16	25
Italy	-	5	2	5	-	-	-	-	18°	-	-	-	15	35	31	50	-	36	65	131
U.K.	12	18	18	29	4	4	-	-	-	-	53	57	10	30	3	6	5	8	102	151
Other	12°	23°	8	14	5	9	6	14	1	8	-	-	8	19[3]	4	8	13	16	56	109
TOTAL EUROPE	40	73	46	82	20	36	27	20	25	53	87	100	87	201	44	72	49	123	419	759

° Minority interests

1 Totals many not add up due to rounding

[2] Including Kleber Colombes

[3] Mostly Spain

Source: Harkleroad, 1980b, p.18, Exhibit 7.

With the dissolution of the partnership in 1981, Dunlop was left with a tyre-making capacity in need of substantial investment, to stem the losses and to make it competitive with the other major producers. In the following sections, I shall examine in detail the market situation that Dunlop faced, and how the company responded to it.

Overcapacity

The postwar growth in the vehicle market encouraged the tyre manufacturers to put down enough capacity in the late 1960s to accommodate the expected increase in demand. Table 5.2 gives a breakdown of tyre production capacity in Western Europe by company in 1964 and 1969. Between those two dates European capacity increased by 81%, with Michelin increasing its capacity by 131%, followed by the American companies: Goodyear, Firestone and Uniroyal who expanded their capacity on average by 80%. Dunlop, by comparison, concentrated on replacement investment which saw capacity increase by just 15%. In fact, between 1958 and 1967, Dunlop invested £163 million in its tyre operations, of which £73 million was spent in the UK. Acording to Sir Raey Geddes, the Chairman of Dunlop at that time:

> "Britain was not in a growth period, so this expenditure went mostly on renewal and modernization" (quoted from Heller, 1979, p.60).

Itwas this failure to restructure its tyre operations which was to leave Dunlop holding a surfeit of redundant capacity, when the market shifted to radial production. The decline in demand brought about by the fall in car production following the two oil crises, in combination with the spread of the steel radial tyre, resulted in an excess capacity

in the European market of 20% by the end of the 1970s (Financial Times, 21 December 1982).

The manufacturers responded initially through a price war, but rationalisation inevitably followed. At first a number of the smaller, unprofitable operations were shut down, whilst the major phase of plant closures began in the Spring of 1979. Three American companies: Uniroyal, BF Goodrich and General Tire divested from tyre production in Europe. Firestone ceased producing tyres in Britain; and Phoenix and Metzeler, West Germany's second and third largest tyre companies respectively, withdrew from the industry.

In total, European tyre capacity was reduced by 97,000 tyres per day between 1977 and 1981; equivalent to 11% of total capacity (Appendix 1, table 7). During this period Firestone reduced its productive capacity by nearly 28,000 tyres per day, followed by Dunlop which cut its capacity by 19,000 tyres per day. By 1983, 19 tyre plants had been closed, accounting for 20% of European tyre productive capacity (TAB, November/December 1983, p.25). Six of these plants were located in the UK, with Michelin closing a seventh plant in Northern Ireland at the end of 1983.

Britain, in fact, suffered a greater loss of tyre-making capacity than any other country in Europe (Appendix 1, table 10). Between 1977 and 1980, tyre capacity in the UK was reduced by nearly 44,000 tyres per day, compared with 26,000 tyres per day in West Germany and 19,500 per day in Sweden. Over this period, plant closures in the UK accounted for over 50% of the total reduction in European productive capacity.

The primary reason for this was because the tyre plants in the UK were older and, hence less profitable, than those in Europe. The British plants (with the exception of Michelin) were still producing the now obsolete crossply tyre, which was surplus to requirements. And with overcapacity in Europe estimated at roughly equivalent to the UK's entire production (SRI, 1980), it was not surprising that Britain bore the brunt of the closures.

Output

The British Rubber Manufacturers Association produces monthly statistics on the rubber industry, detailing the production, sales and exports of crossply and radials by type of tyre (car, commercial vehicle, Earthmover), and by market segment (OE and replacement). If the unions had been monitoring these statistics, they would have been aware that output had been stagnating since the beginning of 1974, and that crossply tyres were being phased out to be replaced by radial capacity. (Appendix 1, table 11).

The reduction in output can be attributed to a number of factors: a fall in OE demand due to a decline in car output; a reduction in the growth of the replacement market owing to the spread of the radial tyre; and an increase in import penetration including captive imports.

In 1960, Britain was the second largest car producer (behind West Germany) outside North America (Appendix 1, table 32), but by 1980 the UK was in sixth place having been overtaken by France, Italy, Japan and Spain, mainly because of the unwillingness of the motor manufacturers to

invest in new plant and equipment to meet the growth in demand in the early 1970s (Appendix 1, Figure 2). In 1972, new car registrations reached a peak of 1.7 million, whilst output similarly peaked at 1.9 million cars. Following the first oil shock demand and production fell in unison, but as demand recovered, output continued to fall, so that by 1977 new registrations outstripped production. When demand reached a new peak of 1.73 million in 1979, output had fallen back to levels on a par to those prevailing in the 1950s. The car firms clearly did not invest in additional capacity because they faced financial difficulties, and were committed to exporting from the UK in kit form. Hence final assembly capacity fell from 2.5 million units in 1973 to 2.3 million in 1978 (Rhys, 1980).

The policy of the volume car producers since 1970 had been to reduce the output of British produced cars. Between 1972 and 1981, BL's output of cars fell from over 900,000 to around 400,000, whilst over the same period Ford reduced its output from around 500,000 to under 350,000 (calculated from SMMT statistics). This led to a larger share of domestic demand being serviced by imports, which increased their share of the home market from 5% in 1965 to 55.7% in 1981 (SMMT, 1982).

The large increase in vehicle imports was partly due to the failure of the motor manufacturers to invest in new models, leaving the British producers dependent on old production facilities and an ageing model range. This allowed the foreign manufacturers to increase their share of the smaller-engined market (engine capacity of less than 1200cc), from 19% in 1971, before the oil crisis, to over 50% by 1978 (Bhaskar, 1979).

An additional reason for the large increase in imports, in particular captive imports after 1975, can be attributed to the policies of the motor companies to integrate their European operations. In 1973, captive imports accounted for less than 2% of home demand, but by 1981 they represented over one-third of all imports, or 19.1% of the total market (calculated from SMMT data). In terms of "lost" tyre sales in 1981, this was equivalent to a reduction of 1.4 million units.

The increasing level of import penetration clearly had a major impact on UK tyre production, because each car was carrying five imported tyres. This level of imports during the 1980s represented a production "loss" of about 4.5 million car tyres per annum. The majority of cars exported, on the other hand,were in an unassembled form (Appendix 1, table 36), and tended to have tyres supplied from sources close to the country of assembly.

The export policies of the British-based subsidiaries are determined by the corporate strategies of the parent companies. Only BL is able to export world-wide without any restrictions being placed on its markets or model design. All of the other car producers in the UK are essentially used to source the home market, and are not in the business of competing in the European market with their own overseas subsidiaries. Consequently, BL is Britain's only major car exporter, and usually its exports are greater than the combined total of the other major producers. However, the lack of investment in suitable models adversely affected its export performance, so that between 1976 and 1981, its exports fell from 309,000 cars to 122,000 (SMMT, 1982).

The overall effect of these strategies on employment in the motor industry is evident. Employment fell from a peak of 485,000 in March 1978 to under 300,000 in March 1983; a reduction of nearly 40% (Marsden et al, 1985). Additionally, BL estimated that the level of captive imports was equivalent to just over 40,000 "lost" jobs in the UK (Financial Times, 2 November 1982).

The Replacement Market

The replacement market for tyres had been stagnating since the beginning of the 1970s. It reached a peak of 16.1 million car tyres in 1972 compared with 14.6 million ten years later (Appendix 1, table 17). This segment of the market is satisfied by home production and by captive and competitive imports.

After 1971, there was a considerable increase in both types of imports. In that year captive imports accounted for 29.7% of total imports, reaching a peak of nearly 50% in 1974, before falling back and averaging 40-48% for the rest of the period up to 1981 (Appendix 1, table 27). The large and sustained high levels of captive imports was attributable to the international production and sourcing policies of the tyre companies. After 1977, captive imports plateaued at a much higher level, whilst net replacement sales in the home market by the domestic producers continued to shrink; indicating that captive imports were being used to displace home production. Furthermore, because the British plants were heavily dependent on obsolete crossply and textile radial production, the manufacturers had to rely upon imports of steel radials from their factories in Europe to meet the burgeoning demand for

these tyres.

Competitive imports have similarly displayed an upward trend since 1971, peaking at 4 million tyres in 1979 (Appendix 1, table 27). The most important source of these tyres are distributor or parallel imports, shipped-in by independent dealers taking advantage of large discounts prevailing in Europe in concert with favourable relative changes in the exchange rate. In 1981, they accounted for 14.4% of the car tyre replacement market, compared with 20.1% for captive (Appendix 1, table 29). The next most important source of imports are the countries of Eastern Europe. By "dumping" tyres on the British market they managed to increase their share of the replacement market from a negligible amount at the beginning of the 1970s, to reach a peak of 6.3% in 1978. However, by 1981 this source of imports fell to 2.8%, following an undertaking by the Eastern European producers to refrain from "dumping" tyres in Europe. Though their share of the replacement market was small, the volume together with the low prices, proved sufficient to depress prices in a market already suffering from overcapacity.

In total, competitive imports increased their share of the replacement market from 12.6% in 1971 to achieve a peak of 27.1% in 1979 (Ibid). Additionally, competitive imports exceeded captive imports in every year after 1971, though in some years only just so. Overall, competitive and captive imports combined have taken an increasingly larger share of the replacement market since the beginning of the 1970s, and by the early 1980s were supplying almost half the domestic car tyre replacement market.

Dunlop's Strategy: Overseas Investment and Product Diversification

In response to the overcapacity in the European tyre sector, Dunlop embarked on a strategy to reduce its dependency on tyres and to concentrate on more profitable areas of business. This resulted in tyre sales falling from 63% of turnover in 1970 to 57.2% in 1979, which was a record year for tyre sales in money terms (Appendix 3, tables 1a and 1b).

The poor performance by the Tyre Division is reflected by the declining profit margins earned on tyres in relation to other product groups, especially the Engineering and Industrial groups. Between 1971 and 1980, tyre margins were squeezed from 8.4% to 1.7% (Appendix 3, table 3). Thereafter, margins recovered due to plant closures and rationalisation policies, although they failed to reach earlier peaks.

An integral part of Dunlop's strategy was to reduce the company's reliance on the domestic market, as it sought to extend its product and geographical spread. Hence, Dunlop was not prepared to invest heavily in modernising it British tyre facilities. Consequently, the UK operating companies saw their share of total sales fall from 43.1% in 1971 to 31.4% in 1983 (Appendix 3, table 5b), whilst they also became the least profitable companies in the Group. Between 1972 and 1977, the British-based companies were the most profitable, with profits peaking at £31 million in 1976, equivalent to 35.6% of total profits (Appendix 3, tables 6a and 6b). Thereafter, profits fell sharply, resulting in large losses totalling £38 million between 1980 and 1982. Meanwhile, the overseas operations became the more important source of profits to

Dunlop, as the European tyre operations began to accumulate large losses.

Dunlop's strategy of reducing its exposure to the home market ensured that Britain became not only a less important manufacturing base for the company, but also a less important market for the Group. Thus, the UK's share of world-wide sales fell from about one-third in 1976 to a quarter by 1983 (Appendix 3, table 8).

Dunlop's expansion into overseas markets left fewer funds available to invest in British production facilities. The main phase of investment for Dunlop-Pirelli was 1971-74, when capital expenditure totalled £310 million, of which 55% was for expanding capacity. About one-fifth of capital expenditure over this period was in the UK, compared with nearly 50% in Europe (Appendix 3, tables 12a and 12b). However, since the British manufacturing facilities were older than those in Europe, the level of investment was insufficient to make them competitive with the continental plants.

Unfortunately, Dunlop does not disaggregate capital expenditure by product group according to region. Nevertheless, we do know that company policy of both concentrating investment outside the UK, as well as in diversified products, had a disproportionate impact on British production facilities, especially tyre manufacturing. In fact in 1983 the level of investment in Dunlop's British operations was, after adjusting for inflation, approximately half that invested in 1968 (calculated from Appendix 3, table 12a).

The under-investment in the British tyre operations directly contributed to the declining profitability and, later losses, as Dunlop became heavily dependent on obsolete capacity in an industry characterised by excess capacity. Table 5.3 confirms that the sustained losses arising from tyre manufacturing after 1978 were primarily responsible for the large losses suffered by the British operations. In that year, the UK tyre facilities returned a loss of £8 million. However, by 1980, losses had risen to the point where they completely overwhelmed the earnings from non-tyre activities, which were also suffering from declining profitability.

With the help of table 5.3 we are able to separate the results of Dunlop's tyre operations from that of Pirelli's. Until the end of 1979, the results of Pirelli Ltd (Pirelli's British tyre manufacturing company) were consolidated in the accounts of Dunlop Holdings. In 1980, Pirelli Ltd, became an associate company, and the following year this status was surrendered under the terms of the dissolution of the Dunlop-Pirelli Union. Thus we can see that sales from Dunlop's tyre operations (excluding Pirelli Ltd) had been stagnating since 1977. Even in 1976 and 1977, when Dunlop was making profits from tyres, these were very low, and the corresponding profit margins were 6% and 3.5% respectively. From 1978 onwards, Dunlop's tyre operations began to suffer from mounting losses, which reached £22 million in 1980. Dunlop responded to this situation by closing down the loss-making plants and by reducing its workforce.

Table 5.3 Dunlop's UK Operating Profits by Activity, 1976-82 (£m)

Sales	1976	1977	1978	1979	1980	1981
Dunlop tyre operations	167	201	198	197	192	176
Pirelli Ltd	48	56	67	67	-	-
Total sales	215	257	265	264	192	176
Profits						
Dunlop	8	4	(9)	(13)	(22)	(16)
Pirelli	2	3	1	-	-	-
Tyres	10	7	(8)	(13)	(22)	(16)
Non-tyre	21	23	26	15	7	3
Total	31	30	18	2	(15)	(13)

Source: Phillips & Drew, Equity Book Service, 29 June 1982 and Phillips & Drew, Motor Research, 4 June 1981.

Nevertheless, some analysts questioned whether Dunlop's rationalisation and investment policies were sufficient to guarantee the future competitiveness and profitability of the tyre operations:

> ".....(A)ll Dunlop can do in the near term is to invest fairly heavily in factory modernisation and reorganisation and try and get unit costs down. Management recognises this and hence a disproportionate percentage of capital investment is going into tyre activities (last year £35m out of a total of £54m). However, given the financial constraints on the Group this means that the scope for expansion of the non-tyre activities is necessarily limited. Furthermore, we feel that even though a high proportion of capital expenditure is going on the tyre activities, the investment is substantially below the replacement cost depreciation charge, so that there is an over-dependence on old and inefficient plant and equipment. We fear that if profitability declines any further this vitally important capital expenditure will have to be deferred, with worrying

> implications for future competitiveness, efficiency and profitability" (Simon and Coates, 14 June 1978, p.6, quoted from Dunlop; Jobs For Merseyside, Speke Joint Shop Stewards Committee, August 1979, pp. 3.3-3.4).

By 1982, Dunlop had trimmed the losses from its British tyre facilities to £11 million. But it was evident that the company did not have sufficient funds to both restructure its tyre operations, as well as to invest in expanding its non-tyre interests. Hence, Fort Dunlop was described the following year as:

> ".....possibly Britain's most old-fashioned tyre plant and one needing substantial investment" (Financial Times, 20 September 1983, p.18).

It was clear, however, that this investment was unlikely to be forthcoming in the near future, as Dunlop was facing growing financial difficulties (see following section), and the company's stated policy was to direct an increasing proportion of new investment into non-tyre product areas. Nevertheless, although investment in tyres fell from 72.1% of total capital expenditure in 1976 to 59.1% in 1983 (Appendix 3, table 13b), it still remained Dunlop's major source of expenditure.

The only way of reconciling company policy aimed at expanding product and geographical diversity with the drain on resources necessitated by tyre manufacturing, was to abandon one in favour of the other. As tyre production was the least profitable and demanded the largest resources, it was inevitable from the mid-1970s that Dunlop would divest itself of this product group if the right opportunity arose.

In the following section we shall analyse the financial statements of Dunlop from 1970 to 1983, to show the impact that the declining

profits and, later losses, from tyre manufacturing had on the financial viability of the company from the investors' point of view. If the trade unions had been monitoring the financial performance of the tyre sector, they would have anticipated the company's plans to run-down and later divest itself of the loss-making tyre facilities.

Financial Statements

Between 1970 and 1983, turnover increased from £563 million (adjusted for the Dunlop-Pirelli Union) to £1,603 million; a rise of 184.7%. However, the growth in sales revenue has not been uniform. From 1970 to 1976, sales increased on average by 15% a year, but from 1977 to 1983 the corresponding average increase was only 3% per annum (calculated from table 5.4).

The slow-down in sales in this later period is indicative of the problems that began to beset Dunlop. The turnover figures were also affected by divestments and the change in status of a number of subsidiary companies. For instance, sales fell from £1,569 million in 1979 to £1,386 million in 1980, primarily because of the exlcusion of sales of Dunlop S.A. (France) and Pirelli Ltd, whose status was changed from that of subsidiaries to associated companies.

In the former case, Dunlop's holding in the French company was reduced from 53% to 49%, as part of a financial re-structuring to provide finance for investments in new ventures in France, whilst in the latter case, Dunlop's equity holding was reduced from 51% to 44% (Annual Report, 1979, p.15). The results of these two companies were consolidated in the Group profit and loss account in 1979, but excluded

Table 5.4 Dunlop Holdings PLC - Group Profit and Loss Account, 1970-83 (£m)

	1970	1970*[1]	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Sales to outside customers	541	563	585	636	750	888	1,015	1,289	1,361	1,475	1,569	1,386	1,456	1,525	1,603
Trading Profit	54.9	58.0	65.3	69.2	78.1	90.5	97.2	124.3	113	105	106	86	90	85	110
Depreciation	19	19.8	21.2	24.6	28.8	30.5	32.2	37.3	38	41	42	36	38	44	47
Operating Profit	35.9	38.2	44.1	44.6	49.3	60	65	87	75	64	64	50	52	41	63
Adjustments					(5.6)	(2.9)	(4.5)	(4.7)	(2)	(2)	(2)	(3)	(3)	(4)	(2)
Investments & Interest	0.2	0.8	0.8	1.1	1.5	1.2	2.1	3.9	4	4	4	8	11	14	7
Associates:															
Pirelli								14	11	8	4	5			
Other								3.4	-	5	7	2			
Total	2.3	4.2	6	7.7	9.5	8.8	13.4	17.4	11	13	11	7	(9)	7	4
Profit before interest and taxation	38.4	43.2	50.9	53.4	54.7	66.1	76.0	103.6	88	79	77	62	51	58	72
Interest charges	(11.4)	(12.5)	(12.9)	(13.5)	(18.9)	(23.9)	(26.2)	(31.4)	(34)	(39)	(51)	(55)	(54)	(67)	(56)
Profit before tax	27.0	30.7	38.0	39.9	35.8	42.2	49.8	72.2	54	40	26	7	(3)	(9)	16
Taxation	(14.4)	(15.8)	(18.4)	(18.5)	(19.7)	(23.7)	(28.6)	(41.4)	(26)	(26)	(28)	(31)	(30)	(31)	(27)
Profit after tax	12.5	14.9	19.6	21.4	16.1	18.5	21.2	30.8	28	14	(2)	(24)	(33)	(40)	(11)
Minorities	(3.6)	(6.4)	(8.1)	(8.2)	(6.3)	(9.5)	(8.5)	(12.5)	(12)	(8)	(1)	6	(12)	(14)	(19)
Profit attributable to Company:															
Before extraordinary items	9.0	8.5	11.7	13.2	9.8	9.0	12.7	18.3	16	6	(3)	(18)	(45)	(54)	(30)
Extraordinary items						0.9				(18)				(28)	(138)
Preference dividend	(0.8)	(0.8)	(0.8)	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Ordinary divident	(7.8)	(7.8)	(8.0)	(4.9)	(3.4)	(3.2)	(3.5)	(4.5)	(7)	(7)	(7)	(5)	(5)	(2)	
Retained Profit	0.4	(0.1)	2.9	7.5	5.8	6.1	8.6	13.2	8	(20)	(11)	(24)	(51)	(85)	(169)

[1] adjusted for Dunlop-Pirelli Union

Table 5.5 Profitability Ratios, 1970-83 (%)

	1970	1970*	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Operating Profit/Sales	6.4	6.5	7.5	7.0	6.6	6.8	6.6	6.7	5.5	4.3	4.1	3.6	3.6	2.7	3.9
Operating Profit/Trading Capital	11.7	11.0	12.4	11.4	11.1	11.8	12.2	13.4	11.1	8.8	9.6	10.4	7.8	5.6	8.8
Sales/Trading Capital	176.6	169.0	164.3	162.2	169.7	174.4	190.9	198.4	202.2	203.2	234.9	225.7	219.3	210.1	224.5
ROCE	12.0	10.4	11.5	12.0	10.8	11.4	12.4	13.8	11.2	9.4	9.7	8.3	7.2	7.2	9.6
E.P.S.	7.8	7.4	10.0	11.6	8.6	8.1	12.5	16.7	12.4	3.8	(3.0)	(14.2)	(32.7)	(38.2)	(21.6)
Dividend per share	5.7	5.7	5.7	3.5	3.4	3.3	3.6	4.6	5.3	5.3	5.3	4.0	4.0	2.0	-

Source: calculated from Dunlop's Annual Reports.

from the balance sheet. The following year they were excluded from the profit and loss account as well. It is probable that the status of these two companies were changed to improve the appearance of the consolidated accounts. The effect of this restructuring on the 1979 balance sheet was to reduce bank overdrafts by £37.4 million (Dunlop S.A., £23.2 million, Pirelli Ltd, £14.2 million), debentures and loans by £25 million (Dunlop S.A., £24.1 million, Pirelli Ltd, £0.9 million), and minority shareholders by £12.8 million (£5.3 million and £7.5 million respectively). If the profit and loss account had similarly been adjusted sales would have been about 14% lower and operating profits about £2 million lower. Consequently, sales would have fallen by around 6.5% compared with 1978. By the same token, sales in 1980 at £1,386 million would have been 2% higher than in 1979 (see Annual Report, 1980, p.15).

The 1981 turnover figure excludes the sales of Angus Fire Armour Ltd which was sold in November 1980. The company's sales figures in that particular year amounted to £35 million. In December of the same year, there was a further capital re-construction owing to losses at Dunlop S.A., France. The French company made a rights issue to provide additional equity capital, which was wholly taken up by Dunlop Holdings, giving the Group a 96% share of the equity. This was in line with company policy of

> ".....controlling our European tyre activities as to enable more rapid integration of manufacturing and marketing" (Annual Report, 1981, p.3).

The French company was included in the consolidated balance sheet as a subsidiary at 31 December 1981, although it retained associated

company status in the Group profit and loss account. The restructuring also bought with it the following additions to the Group balance sheet: bank overdrafts of £29.3 million; debentures and loans of £14.1 million; and an increase in total shareholders' funds of £0.5 million. This was followed by the rationalisation of the Group's European manufacturing operations, which resulted in employment falling from 75,000 to 59,000 between 1981 and 1982, with tyre manufacturing suffering the largest job losses, down from 39,000 to 32,000.

Further, the Union between Dunlop and Pirelli was dissolved in 1981, which entailed the transfer of the minority interests each company held in the other, so that their respective minority holdings were excluded (see Appendix 2 on Dunlop-Pirelli Union for details). In addition, the Group's holding in Dunlop India Ltd, was reduced from 51% to 45% in December 1981. The company was therefore included in the Group balance sheet as an associated company as from 31 December 1981. Dunlop argued that this change was implemented to remove the competitive disadvantage suffered by Indian companies with foreign majority control (Annual Report, 1981, p.3). The effect on the balance sheet was to reduce bank overdrafts by £8.2 million, debentures and loans by £8.8 million and total shareholders' funds by £15.3 million.

In 1982, the appropriate changed status of Dunlop S.A., France and Dunlop India Ltd were incorporated into the Group's profit and loss account. If implemented the previous year, sales in 1981 would have risen from £1,456 million to £1,499 million; the operating profit would have fallen from £52 million to £45 million; and the share of associated companies' profits and investment income (but excluding interest

received) would have registered a profit of £4 million rather than a loss of £7 million. As a result, after deducting financing charges and taxation, minority shareholders' interest would have fallen from £12 million to £10 million, resulting in a rise in attributable losses after extraordinary items of £1 million.

In 1982, Dunlop Nigerian Industries Ltd also lost subsidiary status and became an associated company. The Group's interest was reduced to 40% to comply with the Nigerian Government's regulations pertaining to foreign majority control. This caused bank overdrafts and debentures and loans to fall by £18 million and £4.1 million respectively, and total shareholders' funds to fall by £6.8 million. The impact on the 1983 profit and loss account was to exclude any losses suffered by Dunlop Nigerian Industries Ltd. which in 1982 amounted to £4 million.

Even after allowing for these various adjustments and changes in the status of subsidiaries and associated companies, operating profits slumped from a peak of £87 million in 1976 to £41 million in 1982, but rationalisation and job cuts filtered through to produce a sharp increase in profits to £63 million in 1983.

The overall poor performance is reflected by the continual squeeze on profit margins after 1971, when the margin was 7.5% (table 5.5). It remained at just under 7% for most of the period up to 1977 when it fell to 5.5%. As competition in the tyre sector increased, so profit margins continued to fall until they reached a low of 2.7% in 1982. However, repeated "surgery" by Dunlop was responsible for the upturn in profit

margins to 3.9% in 1983.

Meanwhile the share of profits from associated companies were similarly affected by restructuring and changes made to company status, though the main source of earnings from associated companies remained the Pirelli companies. With the formation of the Union in 1971, earnings started to increase, although the precise details were not disclosed until 1976, when they reached £14 million. Thereafter, they started to fall as losses from Pirelli's tyre business offset income from the more profitable cable side. Furthermore, profits from Pirelli's very lucrative tyre and cable business in Brazil started to decline, and were further eroded by the devaluation of the Brazilian cruzeiro in 1979. In 1981, the Dunlop-Pirelli Union was dissolved, and the income from the Pirelli companies were excluded from the accounts; with that earnings from associates recorded a loss of £9 million. This was principally due to the mounting losses at Dunlop S.A., France, which left the Group's share of these losses at £11 million in 1981 (Phillips and Drew, Equity Book Service, 27 September 1981).

Earnings (before interest and tax) in the first half of the 1970s were far from satisfactory. Dunlop had earlier set itself a target return on capital of 15% before interest and tax, later raised to 17½% (Heller, 1969, p.60). However, Dunlop failed to meet this target even in the high growth period of the 1960s (Newman, 1982, p.52). In 1970 (adjusted), the return on capital was 10.4%, rising to 13.9% in 1976, since when it continued downwards to reach 7.2% in 1981, before recovering to 9.6% in 1983 (see table 5.5). To compound Dunlop's problems still further, there had been a steady climb in interest

charges since 1970 to meet the company's very large borrowings. They rose to a point where, at £54 million in 1981, interest charges actually exceeded pre-tax profits, leaving Dunlop to declare a pre-tax loss of £3 million (after excluding exceptional items of £3 million). This was repeated in 1982, when interest charges rose further still to £67 million, resulting in a pre-tax loss of £9 million.

The inability of Dunlop to meet its financial obligations is further revealed by the erosion of the income cover. It fell from a high of 4 in 1972 to 2.9 in 1973 and remained at this level until 1976, when it recovered to 3.3. Thereafter, it continued to fall each year, culminating in a negative cover in 1981 and 1982.

These were not the only financial commitments that Dunlop had to satisfy. Additionally, Dunlop had to meet its financial obligations to its shareholders and the Inland Revenue. For the shareholders, the most important figure is attributable profits. Throughout the duration of the Dunlop-Pirelli merger, attributable profits were reduced to meet payments to minority shareholders. The exact sums paid to Pirelli were not disclosed for the earlier years, but in 1977 it amounted to £8 million and in 1978 to £2 million. By 1979 and 1980, these had turned into an attributable loss to Pirelli of £6 million and £17 million respectively. With the break-up of the Union all profits and losses were appropriated by Dunlop shareholders. This is important because it forms the basis for calculating the company's earnings per share (e.p.s.). With interest repayments rising and the return on capital falling, the earnings per share deteriorated. It rose from 7.4p in 1970 (adjusted) to reach a peak in money terms of 16.7p in 1976, after which

it declined, recording growing negative earnings in every year after 1979 (see table 5.5).

A further drain on resources were the sums set aside to cover the costs of plant closures and the rationalisation programme, i.e. extraordinary items. In 1978, these amounted to £18 million (composed of £34 million less minority shareholders' interests of £16 million), which produced a drain on reserves of £20 million. In 1980 and 1981, £22.4 million and £22.5 million respectively were set aside for "rationalisation costs, including redundancies, principally in the UK", but no charge is shown in the profit and loss account for either year because these sums were fully offset by profits from the sale of subsidiary companies (£8.3 million in 1980 and £24.3 million in 1981), and other sums and provisions released with the dismantling of the Union. By 1982, extraordinary items had risen to £28 million (of which £29.4 million were rationalisation costs). This, together with steeply growing attributable losses, caused retained earnings to register a loss of £85 millions. Finally in 1983, Dunlop was able to implement the long-awaited decision to extricate itself from the tyre business. The company accordingly set aside £135 million to cover this withdrawal which, with tax less minority interests, produced an attributable loss of £138 million. The total retained losses that year amounted to £169 million. Not surprisingly, the Board recommended that no dividend should be paid, which was not totally unexpected since the dividend had been cut in the previous three years from 5.3p in 1977 to 4p in 1980 and 1981, and finally to 2p in 1982.

Liquidity

An analysis of the Group's Balance Sheet (table 5.6) shows that after 1973 there was a marked deterioration in Dunlop's short-term financial position, as revealed by the trend decline in both the current ratio and the acid test ratio. By 1983, the former stood at 0.99 and the latter 0.54 (i.e. current liabilities exceeded current assets). Turning to table 5.7, we can see some of the changes which have occurred in the composition of working capital over the period in question. The table shows that after 1973, total current assets as a proportion of total assets, increased from 55% to 65.8% in 1983. This large increase was achieved mainly at the expense of fixed assets and investments.

Analysed in more detail, the two most important elements comprising current assets are stocks and debtors. The former maintained a fairly constant share of total assets for most of the period, but experienced a declining share of total current assets. Stocks' share fell from 53% in 1975 to average just under 50% from 1976 to 1982, before dropping to 45.2% in 1983. This pattern is also confirmed when stocks are measured in terms of sales. In 1978, stocks accounted for 25.2% of sales, by 1983 the respective figure was 20.8%. The reasons for this were partly due to Dunlop's policy of running down stocks to source it customers, because of overcapacity and declining production in the tyre sector, and partly attributable to stricter financial control and more efficient management of production and supplies.

Debtors, meanwhile, maintained a fairly constant share of current assets after 1973, at around 43.4%, though there was a perceptible

Table 5.6 Dunlop Holdings PLC - Group Balance Sheet, 1970-83 (£m)

	CAPITAL EMPLOYED														
	1970	1970*[1]	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Ordinary Capital	48.0	48.0	49,1	49.1	49.1	49.1	49.2	49.2	66	66	66	69	72	72	72
Share premium	33.1	33.1	35.4	35.4	35.4	35.4	35.4	35.4	45	46	46	47	48	48	48
Other reserves	41.5	62.1	64.5	39.1	53.4	75.2	95.7	128.9	143	139	141	119	133	131	(10)
Ordinary Shareholders	122.6	143.2	149.0	123.6	137.9	159.7	180.3	213.5	254	251	253	235	253	251	110
Preference Capital	14.7	14.7	14.7	14.7	14.7	14.8	14.7	14.7	15	15	15	15	15	15	15
Minorities	29.2	90.1	94.9	105.2	121.3	142.3	152.6	180.7	200	200	179	166	73	113	127
Long-term creditors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19
Deferred tax and other provisions	5.0	7.4	10.2	16.2	19.0	29.4	30.7	38.3	4	3	4	4	6	8	43
Sub total	48.9	112.2	119.8	136.1	155.0	186.5	198.0	233.7	219	218	198	185	94	136	204
Debenture & Other Loans															
Debentures & Loans	101.9	112.4	137.1	151.4	163.0	161.1	162.8	172.8	180	244.8	234.8	231.4	234.6	246.6	39.3
Loans (under 1 year) + overdraft	35.5	38.5	29.2	24.6	38.7	59.0	55.4	110	108	107	88	82	171	195	356
Bills of Exchange	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21
Instalment purchase	9.6	9.6	8.8	9.9	9.7	13.9	15.6	21	22	19.8	17.5	14.6	17.4	19.4	21.7
Divestment	-	-	-	-	-	-	-	-	-	-	-	-	(60)	(43)	(4)
Total debt	147.0	160.5	175.1	185.9	211.4	234.0	233.8	303.8	310	371.6	340.0	328.0	363	418	437
Capital Employed	318.5	415.9	443.9	444.7	504.4	580.2	612.1	751.0	783	841	791	748	710	805	751
Net asset value	127.7	149.2	152.0	126.1	140.7	163.0	184.0	217.9	192.4	190.2	191.7	170.3	175.7	174.3	0.76
Debt/Equity	88.3	64.7	67.7	76.3	77.2	79.1	67.3	74.3	66.1	79.7	76.1	78.8	106.5	110.3	173.4
Debt/Capital Employed	46.2	38.6	39.4	41.8	41,9	40.3	38.2	40.5	39.6	44.2	43.0	43.9	51.3	51.9	58.2

[1] adjusted for Dunlop-Pirelli Union

Table 5.6 Dunlop Holdings PLC - Group Balance Sheet, 1970-83 (£m)

ASSETS EMPLOYED	1970	1970*	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
FIXED ASSETS															
Land and buildings	52.0)		58.8	65.0	73.8	105.7	109.3	122.2	122	125	116	127	163	181	183
Plantations	9.9)	175.8	9.9	11.0	12.7	13.3	13.8	16.7	16	45	36	33	-	-	-
Plant and equipment	94.0)		124.2	137.1	151.1	148.6	150.3	173.2	180	179	159	159	175	198	169
Investment grants	(7.9)	(11.3)	(11.1)	(11.2)	(11.0)	(10.8)	(9.9)	(10.0)	(9)	(9)	(7)	(6)	(6)	(6)	(7)
Total Tangible Fixed Assets	148.0	164.5	181.8	201.9	226.7	256.9	263.5	302.1	309	340	304	313	332	373	345
Associates)	11.9	82.7	87.9	52.7	62.0	70.9	80.5	101.3	110	115	107	134	31	79	37
Other Invesments)											16		15		
CURRENT ASSETS															
Stocks and WIP	133.5	141.6	148.7	155.9	186.2	231.0	249.6	309.9	340	372	323	307	352	363	333
Debtors	128.1	135.1	129.9	144.5	160.3	187.6	201.7	278.1	280	312	300	273	311	312	318
Cash	9.7	9.8	8.9	10.2	26.3	13.4	19.2	35.8	37	35	53	40	46	63	85
Total Current Assets	271.3	286.5	287.4	310.7	372.7	432.0	470.5	623.8	657	719	676	620	709	738	736
CURRENT LIABILITIES															
Creditors	98.1	103.0	98.6	107.4	142.7	160.7	178.6	243.2	259	303	281	292	346	355	346
Taxation	10.2	10.2	9.9	8.7	10.9	15.7	20.3	28.5	27	23	24	22	25	27	24
Dividends	4.6	4.6	4.7	4.4	3.4	3.2	3.5	4.5	7	7	7	5	6	3	-
Sub-total	112.9	117.8	113.2	120.6	157.0	179.6	202.4	276.2	293	333	312	319	377	385	370
Loans (under 1 year) + overdraft	35.5	38.5	29.2	24.6	38.7	59.0	55.4	110.0	108	107	88	82	171	195	356
Bills of Exchange															21
Total Current Liabilities	148.4	156.3	142.4	145.2	195.7	238.6	257.8	386.2	401	440	400	401	548	580	747
Trading Capital Employed	306.4	333.2	356.0	392.0	442.4	509.3	531.6	649.7	673	726	668	614	664	726	714
Overall Capital Employed	318.3	415.9	443.9	444.7	504.4	580.2	612.1	751.0	783	841	791	748	710	805	751
RATIOS															
Current ratio	1.83	1.83	2.02	2.14	1.90	1.81	1.83	1.62	1.64	1.63	1.69	1.55	1.29	1.27	0.99
Acid Test	0.93	0.93	0.97	1.07	0.95	0.84	0.86	0.81	0.79	0.79	0.88	0.78	0.65	0.65	0.54
Stocks/Sales	24.7	26.2	25.4	24.5	24.8	26.0	24.6	24.0	25.0	25.2	20.6	22.2	24.2	23.8	20.8
Debtors/Sales	23.7	25.0	22.2	22.7	21.4	21.1	19.9	21.6	20.6	21.2	19.1	19.7	21.4	20.5	19.8
Creditors/Sales	18.1	19.0	16.9	16.9	19.0	18.1	17.6	18.9	19.0	20.5	17.9	21.0	23.8	23.3	21.4
Working Capital/Sales	30.2	32.1	30.8	30.3	27.2	29.0	26.9	26.7	26.5	25.8	21.8	20.8	21.8	21.0	19.2

Table 5.7 Dunlop Holdings PLC - Group Balance Sheet, 1970-83

Common-size (%)

	1970* [1]	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
CURRENT ASSETS														
Stocks	26.5	26.7	27.6	28.2	30.4	30.6	30.2	31.6	31.7	29.3	28.8	32.4	30.5	29.8
Debtors	25.3	23.3	25.6	24.2	24.7	24.8	27.1	26.0	26.6	27.2	25.6	28.6	26.2	28.4
Cash	1.8	1.6	1.8	4.0	1.8	2.4	3.5	3.4	3.0	4.8	3.7	4.2	5.3	7.6
Total Current Assets	53.6	51.6	55.0	56.4	56.9	57.8	60.7	61.1	61.2	61.3	58.1	65.2	62.0	65.8
Fixed Assets	30.8	32.6	35.7	34.3	33.8	32.4	29.4	28.7	29.0	27.6	29.3	30.5	31.3	30.9
Investments	15.5	15.8	9.3	9.4	9.3	9.9	9.9	10.2	9.9	11.2	12.6	4.2	6.6	3.3
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
LIABILITIES & EQUITY														
CURRENT LIABILITIES														
Creditors	19.3	17.7	19.0	21.6	21.2	21.9	23.7	24.1	25.8	25.5	27.4	31.8	29.8	30.9
Loans & O/D	7.2	5.2	4.4	5.9	7.8	6.8	10.7	10.0	11.9	8.0	7.7	15.7	16.4	31.8
Bills of Exchange														1.9
Tax	1.9	1.8	1.5	1.6	2.1	2.5	2.8	2.5	2.0	2.2	2.1	2.3	2.3	2.1
Dividends	0.9	0.8	0.8	0.5	0.4	0.4	0.4	0.7	0.6	0.6	0.5	0.6	0.3	-
Total Current Liabilities	29.3	25.6	25.7	29.6	31.4	31.7	37.6	37.3	37.5	36.3	37.6	50.4	48.7	66.8
Long-term debt	22.9	26.2	28.5	26.1	23.0	21.9	18.9	18.8	22.5	22.9	23.1	23.2	22.4	5.5
Deferred tax + other provisions	1.4	1.8	2.9	2.9	3.9	3.8	3.7	0.4	0.3	0.4	0.4	0.6	0.7	3.8
Long-term creditors														1.7
Divestments												(5.5)	(3.6)	(0.4)
Total Liabilities	53.5	53.5	57.1	58.6	58.3	57.3	60.2	56.4	60.3	59.5	61.0	68.6	68.2	77.5
Net Worth	46.5	46.4	42.9	41.4	41.7	42.7	39.8	43.6	39.7	40.5	39.0	31.4	31.8	22.5
Total Liabilities & Equity	100.0	100.0	100.0	100.0	100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] adjusted for Dunlop-Pirelli Union

improvement in the debtors/sales ratio after 1979. This, once more, is further evidence of tighter financial regulation.

Cash, by contrast, accounted for a growing proportion of both total current assets and total assets, especially during the mid-1970s. As stocks' share of total current assets declined, so accordingly, did cash's share increase. In 1982, it rose to 8.5%, and further still to 11.5% the following year. Although, the £85 million worth of liquid assets did include £14.4 million of funds in Zimbabwe, which Dunlop was unable to repatriate.

Focusing on current liabilities, we can see that their share of the funds invested in Dunlop rose from 29.3% in 1970 to 50.4% in 1981, and finally to 66.8% in 1983. This is confirmed by the trend analysis (table 5.8), which shows that current liabilities increased at a comparable rate with current assets up to 1975. Thereafter, the former increased at a much faster rate so that by 1983, current liabilities had increased by 4.78 times since 1970, whilst the latter had risen just 2.57 times. The growth in current liabilities up to 1975 was also below sales, but in the following years, apart from 1981 and 1982, this pattern was reversed. In other words, the financial institutions were taking control as Dunlop was forced to rely upon short-term loans from banks and credit from suppliers to maintain operations. Thus, the explanation for the steady decline in the current and acid test ratios.

The deteriorating financial position of Dunlop is further confirmed by the upward trend in the creditor/sales ratio, and by the failure of

Table 5.8 Dunlop Holdings PLC - Trend Index of Selected Accounts (1970=100)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Ordinary Shareholders	104	86	96	112	126	149	177	175	177	164	177	175	77
Reserves	104	63	86	121	154	208	230	224	227	192	214	211	(16)
Minorities	105	117	135	158	169	201	222	222	199	184	81	125	141
Equity	104	98	110	128	140	165	189	188	180	168	138	153	102
Loans: short-term	76	64	101	153	144	286	281	278	229	213	444	506	925
Loans: long-term	120	132	142	143	146	159	166	217	207	202	207	218	50
Total debt	109	116	132	146	146	189	193	232	212	204	226	260	272
Operating Profit	115	117	129	157	170	228	196	168	168	131	136	107	165
Profit before Interest & Tax	118	124	127	153	176	240	204	183	178	144	118	134	167
Interest charges	103	108	151	191	210	251	272	312	408	440	432	536	448
Profit after tax	132	144	108	124	142	207	188	94	(13)	(161)	(221)	(268)	(74)
Current Liabilities	91	93	125	153	165	247	257	282	256	257	351	371	478
Current Assets	100	108	130	151	164	218	229	251	236	216	247	258	257
Stocks	105	110	131	163	176	219	240	263	228	217	249	256	235
Debtors	96	107	119	139	149	206	207	231	222	202	230	231	235
Cash	91	104	268	137	196	365	378	357	541	408	469	643	867
Working capital	104	111	117	148	157	199	208	219	197	166	182	186	176
Sales	104	113	133	158	180	228	242	262	279	246	259	271	285
Fixed Assets	111	123	138	156	160	184	188	207	185	190	202	227	210

Source: calculated from tables 5.4 and 5.6

the working capital (index) to keep abreast of turnover, particularly after 1976 when the gap between the two started to widen. Moreover, in 1974, working capital amounted to 29% of sales, but it fell sharply to 21.8% in 1979, and to 19.2% by 1983. Yet further evidence of a company intent on reducing its borrowing requirements.

Analysis of Funds Flow

The overall financial position of Dunlop is illustrated in table 5.9, which discloses the sources and uses of funds during the eight years, 1976-83. Over this period, Dunlop experienced a financial deficit in every year with the exception of 1983. The total outflow of funds over these eight years amounted to £258 million. Most of this deficit was covered by net borrowings, including a rights issue of £26 million in 1977. This indicates that net profits were inadequate to finance all of the Group's expenditure, including investment and stock replacement. Pre-tax profits had been declining every year since 1976, culminating in an actual loss of £7 million in 1982, whilst the sums set aside to cover plant closures and redundancies increased from £2 million in 1978 to £26 million in 1983. Expressed as a percentage of total funds generated, funds from operations fell from a high of 71.8% in 1976 to a low of 6.3% in 1982.

Table 5.9 Group Statement of Source and Application of Funds, 1976-83 (£m)

	1976	1977	1978	1979	1980	1981	1982	1983
Pre-tax profits	73	57	43	29	10	-	(7)	17
Extraordinary items	-	-	(2)	(22)	(11)	(19)	(23)	(26)
Depreciation	37	38	41	42	34	38	44	47
(Profit) Losses retained in associated companies	-	-	-	-	-	13	(5)	(3)
Miscellaneous items	2	3	1	4	10	1	(2)	-
Total from Operations	112	98	83	53	43	33	7	35
Rights issue	-	26	-	-	-	-	-	-
Other share issues	-	-	-	-	4	3	-	-
Increase in Loans	42	55	127	45	48	68	72	34
Sale of Assets	2	3	7	3	6	4	3	3
Divestment	-	-	-	-	19	30	29	83
Total Funds	156	182	217	101	119	139	111	155
Tax paid	30	21	28	27	31	20	28	33
Dividends paid:								
Dunlop shareholders	4	5	7	8	8	6	6	3
Minority shareholders	6	6	7	7	7	8	10	12
Loans repaid	23	27	81	32	44	63	30	26
Expenditure on Fixed Assets	44	55	52	50	52	58	64	72
New Investments	7	8	1	1	11	15	2	-
Increase (decrease) in net working capital	44	39	57	(6)	(26)	8	(12)	(10)
Increase (decrease) in net liquid funds	(2)	21	(16)	(18)	(8)	(39)	(17)	19
Total Application	156	182	217	101	119	139	111	155
Working Capital								
Increase (decrease) in stocks	33	47	33	17	2	24	2	3
Increase (decrease) in debtors	57	16	33	40	(12)	30	(20)	14
(Increase) decrease in creditors	(46)	(24)	(9)	(63)	(16)	(46)	6	(27)
Net Increase (decrease)	44	39	57	(6)	(26)	8	(12)	(10)
Liquidity								
Increase (decrease) in cash	13	14	(2)	12	(9)	6	17	24
(Increase) decrease in overdraft	(15)	7	(14)	(30)	1	(45)	(34)	(5)
Increase (decrease) in liquidity	(2)	21	(16)	(18)	(8)	(39)	(17)	19

Source : Dunlop Annual Reports

For a company, however, the crucial consideration is whether the interest repayable on borrowings can be met from earnings. Table 5.9 reveals that there was an upward trend in the proportion of borrowings to capital employed. Between 1976 and 1983, borrowings rose from 40.5% to 58.2%. Over the same period, the Debt/Equity ratio, which is a more sensitive measurement of gearing, increased from 74.3% to 173.4%. As the high level of debt mounted, internally generated funds from operations were insufficient by 1980 to meet either expenditure on fixed assets, or the repayment of long-term debt. Dunlop was, therefore, forced to contain its borrowing commitments by selling a number of its subsidiary companies to raise finance. In 1980, divestments raised £19 million, increasing to £83 million in 1983; equivalent to 16% and 53.5% of total funds respectively. Nevertheless, Dunlop still needed to raise external borrowings to fund its diversification programme, and to convert its operations from textile to steel radial production. For much of the period under review, capital expenditure only just exceeded depreciation (before allowing for inflation), which would indicate that most of this investment was for replacement purposes.

Further evidence of the attempts by management to exert tighter financial regulation over its deteriorating financial position are revealed by the controls imposed on any expansion of working capital. In 1978, working capital increased by £57 million, but it was stringently cut back for three of the next four years, as stocks were run-down and creditors were allowed to increase faster than debtors. Dunlop's short-term liquidity position, meanwhile, worsened as the company's reliance on its overdraft facility expanded faster than cash reserves were being accumulated, so that in 1981 and 1982 short-term

loans exceeded funds generated from operations.

Capital Structure

Referring back to table 5.7 we can see that the proportion of equity capital to the total funds invested in Dunlop shrank from 46.5% in 1970 to 31.4% in 1981, and finally to 22.5% in 1983. The long-term debt portion of total funds invested in the enterprise similarly exhibited a downward trend from a peak of 28.5% in 1972, ending up at just 5.5% in 1983, owing to the company's policy of converting long-term debt into short-term.

Table 5.8 shows the relative changes in the elements which make up debt and equity. It is evident that debt increased much faster over this period than equity, leaving equity in 1983 at a level comparable to that prevailing in the early 1970s (i.e. a decline in real terms). Over the same period, sales rose to 285, net profits declined to (74), whilst interest charges rose sharply to 448. The direction of company policy was to finance its needs by long and short-term debt. In 1978, Dunlop repaid two large loans totalling DM 150 million (£40 million). These were redeemed and replaced with sterling loans, so that the British operations were entirely financed in sterling (Annual Report, 1978, p.18).

An inspection of Dunlop's balance sheet (table 5.6) reveals the impact that the European tyre operations had on the financial position of the company. Net profits proved inadequate to finance investment and stock replacement, leaving Dunlop with the option of increasing its

borrowings, running down its cash reserves, or adopting some combination of the two. A company will consider it worthwhile borrowing money so long as its return on capital exceeds the cost of capital, thus borrowings will increase attributable profits. However, the problem with relying on borrowings is that interest charges can seriously erode pre-tax profits, particularly of a company which is highly geared. Dunlop, therefore, found itself in a position where interest charges were increasing sharply, return on capital was declining, and finally in 1981 interest charges outstripped pre-tax profits.

After 1978, reserves were gradually depleted as Dunlop divested. The company responded to mounting attributable losses by regularly reviewing and revaluing its fixed assets, to give both a more accurate figure of the capital employed, and to increase ordinary shareholders' funds (otherwise the Debt/Equity ratio would have been higher). In 1981 and 1982, these surpluses from asset revaluations amounted to £31 million and £50 million respectively, accompanied by exchange adjustment gains of £33 million and £35 million respectively. A year later, Dunlop agreed to sell its European tyre facilities to Sumitomo, which led to the complete run-down of reserves to cover the costs associated with the divestment (revaluation of fixed assets amounted to £9 million and retained losses totalled £169 million). Sir Maurice Hodgson, the new Chairman, explained the reasons why:

> ".....as shareholders were warned at the time of the EGM, there were substantial extraordinary costs involved in the SRI deal comprising asset write-offs and provisions for redundancies and other charges. Together with similar costs for other closures and further rationalisation and restructuring of the diversified products group, the total extraordinary items for 1983 amounted to an additional £138 million, of which £12 million was a provision for the expected losses in Tyres Europe in 1984 until the businesses are acquired by Sumitomo. Prudence dictated that these

expected tyre losses should be taken into the 1983 accounts" (Annual Report 1983, p.4).

This left ordinary shareholders' funds at the end of 1983, £141 million lower at £110 million compared with a total debt of £437 million, and even if minority interests and preference capital are included with equity, the overall debt/equity ratio reached 173.4%. The inflow of funds from Sumitomo reduced the level of debt to equity, though Dunlop was to be responsible for any debts or guarantees outstanding of Dunlop S.A., France, which went into liquidation on 6 October 1983 and was deconsolidated from the Group accounts at that date. The fund of £138 million set aside for the divestment contained a provision of £39 million for this purpose.

The effect of this decision by Dunlop to sell its European Tyre interests left ordinary shareholders' funds equivalent to just 14.8% of total capital employed, compared with 31.2% in 1982 and 35.6% in 1980 (aided by the revaluation of fixed assets). This really underlines the extent of Dunlop's debt problems. In 1970 (adjusted), ordinary shareholders' funds stood at 34.4% of total capital employed, but their share began gradually to fall as debts began to mount, so that by 1974 their share had fallen to 27.5%.

Faced with mounting debts, Dunlop endeavoured to strengthen its financial position. In 1977, Dunlop raised some £26 million by way of a one-for-three rights issue, to facilitate planned capital expenditure of £246 million for the three year period 1977-79 (partly to re-equip for steel radial production), of which 35% of the total was to be spent in the UK (Annual Report, 1976, p.2). In the event, actual capital

expenditure was considerably below this sum, at just £164 millions, with the UK accounting for 41.5% of total investment (Appendix 3, table 12a). The stated policy of moving from "selective containment to selective expansion", had clearly suffered a set-back.

By 1978, Dunlop was ready to reveal to investors the Group's decision to reduce its tyre-making capacity in Britain, as a first step towards rationalising its European tyre operations. An explanation of the reasoning behind company policy was proferred by Michael Whitaker, an analyst at the stockbrokers, Simon & Coates:

> "The background to the above measures is the appalling slump in profits of the Group's European tyre operations over the past eighteen months. Due to a combination of substantial overcapacity, 'dumping' of cheap imports into the UK and the sharp decline of the replacement market the European tyre operations are estimated to have lost approximately £20m at the operating level in 1978. In the second half of the year the problem became so acute that Dunlop was forced to cut its supply prices to its UK distribution network.
>
> Dunlop has been forced to cut capacity at this relatively early stage rather than sit out a prolonged poker game with the other tyre manufacturers waiting to see who will be the first to cut capacity largely because of the scale of its losses. Losses at the rate of £20m p.a. are a potentially crippling burden on the Group's cash flow and loan structure, which is beginning to look seriously unbalanced. Estimated net borrowings at 31.12.78 of £330m compare with ordinary shareholders' funds of £254m and minorities' capital of £200m, and although this aggregate net gearing of 73% does not look an intolerable burden it conceals a severe international imbalance of liquidity within the Group; outside Europe, borrowings are relatively small, but £12m of pre-tax profits consists of associates income and also it is difficult or impossible to remit funds from several of the non-European operations back into Europe. In consequence European gearing is extremely high, and as it is the European operations which are incurring the major losses the Group may be beginning to come up against lending constraints within several of its European operations" (Simon & Coates, 26 January 1979, p.2).

Dunlop's solution to its liquidity problem was to raise finance by selling assets. On 29 September 1981, Dunlop announced that it was going to sell its 51% stake in Dunlop Estates Berhad for £60 million to Multi-Purpose Holdings, a Chinese/Malaysian company, which would give Dunlop an extraordinary profit of £23 million over the book value of the subsidiary.

The Dunlop estates were Malaysia's sixth largest plantation group with 55,097 acres, comprising 49.1% rubber, 42% oil palm and 8.9% cocoa (Far Eastern Economic Review, 27 June 1980, p.52). They were also one of the Group's few profitable ventures. In 1980 and 1981, the respective pre-tax profits were £7.1 million and £4.6 million, of which £1.9 million and £1.8 million were attributable to Dunlop shareholders. But the Group planned to more than compensate for these lost earnings by using the proceeds from the sale to reduce borrowings. By so doing, Dunlop hoped to increase attributable profits by £5 million in a full year (Annual Report, 1981, p.14), on the basis that the resulting reduction in interest charges would exceed any lost profits.

The deal also offered certain other advantages to Dunlop. Firstly, it helped to remove the threat of a Malaysian takeover of the Dunlop Group itself (see following section). Secondly, the Malaysian Government's "New Economic Policy" proposed to limit foreign participation in companies operating in Malaysia to 30% by 1990. Dunlop would, therefore, have been forced to sell 21% of its holdings to local interests before that date. Additionally, during the previous 15 years, Dunlop had been concentrating on the more profitable oil palm at the expense of rubber. Now, however, the oil palms required a large capital

outlay to facilitate replanting; an investment which Dunlop was loathe to make, in view of the declining commodity prices (Far Eastern Economic Review, 9 October 1981, p.94). Moreover, the sale price gave Dunlop a premium of almost a half on the quoted share price of Dunlop Estates. It also amounted to roughly two-thirds of the Group's market capitalisation (Financial Times, 30 September 1981).

In 1981, Dunlop announced that the funds generated by divestments totalled £94 million (Annual Report, 1981, p.14), of which £60 million came from the sale of Dunlop Estates and £20 million from the dissolution of the Dunlop-Pirelli Union. On the other hand, the consolidation of Dunlop S.A., France bought with it £43 million of debt. The only movement in the opposite direction was the deconsolidation of Dunlop India, which reduced debt by £17 million. The net effect of all of these transactions was to increase total debt from £328 million in 1980 to £363 million in 1981, causing the debt/equity ratio to rise from 78.8% to 106.5%, whilst interest charges exceeded operating profits. With the European tyre operations sliding into losses and in need of urgent attention, further divestments were clearly planned.

To finance this major programme of divestment and plant closures, Dunlop called an Extraordinary General Meeting for 26 January 1984, to seek shareholders' permission to raise the company's borrowing limit. Existing borrowing limits had been set at 1½ times book net worth, which would have limited total indebtedness to £458 million. However, the proposed programme of disposals and write-offs would certainly have breached this limit during 1984. Rather than raise the existing multiple, the Dunlop directors proposed a ceiling of £600 million, which

was duly approved.

The banks, meanwhile, remained concerned as their loans to Dunlop already stood at over ten times its market capitalisation (Financial Times, 4 January 1984). At the beginning of May 1984, the 46 banks with loans outstanding to Dunlop, moved to protect their interests by converting some of their debt into equity. In return Dunlop was forced to convert its long-term debt into short-term borrowings, causing the former to fall from £226 million to £61 million, and the latter to rise from £195 million to £356 million. Nevertheless, the large difference between shareholders' funds and borrowings remained, and it was inevitable that Dunlop would be forced to divest itself of further overseas subsidiaries to improve its financial position.

Takeover Threat

The losses sustained by the European tyre operations, and the associated debt, had led to much speculation about the possiblity of a takeover of Dunlop. There had been persistent rumours since the beginning of 1980 that Malaysian interests, led by Mr Abdul Ghafar Baba, were preparing to make a bid for the Group. Goodyield Plaza and Pegi Malaysia, companies owned by the aformentioned businessman, together with a number of other Far Eastern business interests, had secretly been building up a substantial shareholding in the company. By the middle of 1980, it was rumoured that the Malaysians held somewhere between 20-30% of the Dunlop shares, possibly more (Far Eastern Economic Review, 27 June 1980, p.51). A concerned Dunlop, asked the Department of Trade to investigate the extent of their shareholding, but the Department's

investigators were unable to fulfil this task. Nevertheless, their investigation did have the effect of hastening Goodyield's disclosure of the full extent of its holding in Dunlop. This was revealed to be 17.5% (Far Eastern Economic Review, 27 February 1981, p.90). In a later deal Goodyield transferred its entire holding in Dunlop to its associate, Pegi Malaysia.

One may wonder why the Malaysians should have wanted to acquire Dunlop, given the company's precarious financial position. There are a number of possible explanations. Firstly, it would have allowed the Malaysians to move downstream into advanced rubber-based and industrial technology. Alternatively, it was known that the Malaysians were essentially interested in the two profitable Malaysia-based Dunlop subsidiaries. However, the share price of Dunlop Holdings was so low, that it would have cost about the same to buy the parent as it would the subsidiaries at market capitalisation, then valued at M$350 million (Far Eastern Economic Review, 27 June, 1980, p.52). It, therefore, made a great deal of sense to purchase the parent company, and to dispose of any unwanted part of the Group. As one analyst explained:

> "Dunlop's real vulnerability stems from a low share price. It stands at a mere 25% of net asset value, to give a market capitalisation under £100m. Dunlop will continue to be a potential takeover candidate while it stands at a discount to net asset value and while those assets have strategic value to some bidders" (Far Eastern Economic Review, 1 May 1981, p.48).

Dunlop's directors moved to avert the takeover threat by agreeing to a deal in September 1981, to sell its 51% stake in Dunlop Estates to Multi-Purpose Holdings, a Chinese/Malaysian company. In return the latter company ageed to set up a new joint venture with Pegi, which

would comprise of Dunlop Estates plus Pegi's 17% stake in Dunlop. An important part of the deal was an agreement by Pegi and Multi-Purpose, that the new company would not increase its existing stake in Dunlop (Far Eastern Economic Review, 9 October 1981, p.94). But why were Pegi and Multi-Purpose satisfied to purchase a 51% stake, rather than pursue a full takeover of Dunlop, with a market capitalisation of £89 million? Since Pegi already had a holding in Dunlop valued at £14 million, they would only have needed to find an additional £15 million, at Dunlop's then market price of 60p. The ready answer is that a successful takeover was less certain to succeed and that the offer price per share would probably have been about £1, putting a bid beyond the means of the two companies (Ibid, p.95). Further, given the very high interest rates then prevailing, it is likely that they did not relish inheriting Dunlop's large debt problem.

In December 1982, the joint company set up by Pegi and Multi-Purpose was dissolved, leaving the former with its shareholding in Dunlop and the latter with control of the Estates. Evidently, it was just a marriage of convenience to appease the Malaysians Bumiputras (indigenous "sons of the soil") policy of local ownership and control. This left Pegi free to continue building up its shareholding in Dunlop. By April 1983, this stake had risen to 26.1% (Financial Times, 12 April 1983). In the meantime, Pegi was still awaiting permission from the Malayasian Government to complete its £73 million bid for Dunlop Malaysian Industries Berhad; later revised to a 25.5% stake, before being finally abandoned. Once again, however, given that Dunlop's share price stood at 49 pence, valuing the company at £70.5 million, as against a net asset value of £650 million, Pegi could have bought

control at a cost of around £25 million (Economist, 30 April 1983, p.79). Under British law, Pegi would have had to make a full bid for Dunlop if it had raised its holding beyond 29.9%. Dunlop, however, believed that Pegi lacked the necessary industrial management expertise to seek full control (Financial Times, 12 April 1983). Eventually, the Malaysians were offered, and accepted, two non-executive posts on the Dunlop Board. These were duly appointed on 23 June 1983.

Meanwhile, the prospect of a bid for Dunlop encouraged American investors to buy 10 million of the company's shares, as speculation caused the price of the shares to increase by 50% in two days, valuing Dunlop at £112 million (Investors Chronicle, 27 May 1983, p.35). Investors were interested in Dunlop because the sum of the individual parts were worth more than the company's market value, and they believed that any bid would reflect this fact. The Investors Chronicle put a total realisable value on Dunlop's foreign quoted subsidiaries at £160 million, excluding quoted subsidiaries in India, Nigeria, Zimbabwe and Zambia, which would have been very difficult to repatriate because of local exchange controls. The value of unquoted subsidiaries was put at about £140 million, giving a total value on paper of £300 million (Ibid). Mr Bill Seward of stockbrokers, Phillips and Drew, put a value of £170 million on realisable assets, excluding the European tyre subsdidiaries. Mr Criss York, of Capel Cure-Myers, put the value a little higher at £180 million. This compares to the then stock market value for Dunlop of £75 million (Financial Times, 20 September 1983).

Clearly, the answer to Dunlop's problems was to somehow extricate itself from the European tyre business, to allow the company to

concentrate on its more profitable investments. However, simply closing down the tyre operations was the one solution not available:

> "Dunlop does not have the option of simply closing down its European tyre operations. It still has about 4,000 people making tyres in the UK and 3,000 in France. The enormous redundancy and closure costs and the political difficulty of such a move makes it highly improbable. Even for a potential bidder, some form of separate hive-off of tyre activities in Europe would be difficult because, while much of the group's £400m net debt relates to tyres, the borrowings have generally been secured against all of Dunlop's businesses" (Investors Chronicle, 27 May 1983, p.35).

In these circumstances, the only alternative was to find an outright purchaser for the tyre facilities.

Details of the Sumitomo Deal

On 19 September 1983, Dunlop confirmed that it was selling its European tyre interests to Sumitomo. Details of the deal were given in a statement three days later. The Japanese company was to acquire:

(i) Dunlop's tyre factories at Washington, Co Durham and Wittlich in West Germany; and a truck tyre retread factory in the UK;

(ii) the tyre manufacturing facilities within the factory at Hanau in West Germany;

(iii) the tyre technical and mould engineering activities and the truck and bus tyre manufacturing facility at Fort Dunlop, Birmingham;

(iv) the tyre depots, selling and distribution facilities in the UK and West Germany (but excluding the wholesale and retail tyre distribution business in those countries);

(v) the Dunlop tyre selling companies in Austria, Belgium, Denmark, Greece, Holland, Italy, Norway, Sweden and Switzerland (Statement to Stock Exchange and Press, 22 September 1983).

The amount agreed for the sale of these businesses plus Dunlop's 40% stake in Sumitomo Rubber was about £82 million; an interim payment of £41 million (later increased to £43 million because of the fall in the value of the pound) was to be received at the end of 1983 and the balance by 2 January 1985. Sumitomo also agreed to purchase the inventories of these businesses, thereby releasing to Dunlop the substantial sums tied up in working capital, estimated to be about £30 million; leaving Dunlop to collect any outstanding debts and likewise pay-off any creditors (Ibid).

The acquisition of the above four tyre plants gave Sumitomo tyre production capacity of 4,500 tons (new rubber consumption) monthly, which was equivalent to about 15% of Dunlop's capacity (TAB, November/ December, 1983, p.35). At that time Sumitomo was manufacturing about 10,000 tons of Dunlop tyres in Japan. Specifically excluded from the deal were the car tyre manufacturing operations at Fort Dunlop, Birmingham (though negotiations were in progress in April 1984 between the two companies to arrive at a price for these facilities) and the French operations.

The benefits to Dunlop of divesting itself of its loss-making tyre factories and improving its cash flow position were obvious. The City was equally "thrilled" by the decision. It

> ".....reacted with unreserved enthusiasm at the prospect of Dunlop unloading most of its tyre operations, which stacked up a £26 million loss last year.
>
> Dunlop's share price rose 10p to 63p, increasing the stock market value of the company by £14.4 million" (The Guardian, 20 September 1983).

The trade unions, on the other hand, were not convinced of the benefits that the takeover offered to their members, especially since Sumitomo stated that at least 1,000 jobs would be cut at Fort Dunlop in Birmingham (Financial Times, 29 September 1983). Perhaps what angered the unions the most was the fact that they were not informed that these negotiations had been taking place. Indeed, talks between national officials of the TGWU and GMBATU and senior management only months earlier, had revealed no proposed changes in company policy. On hearing news of the deal Mr John Miller, National Officer of the TGWU, reportedly accused Dunlop of telling him "downright bloody lies", about the company's future, at a meeting in June (The Guardian, 20 September 1983). But should the trade unions have been that surprised at this turn of events? The analysis in this and previous chapters suggests not. Furthermore, there was some speculation to this end as early as April 1983. In fact, it was reported that:

> "Another possibility, not wholly discounted at Dunlop, is that the Japanese are casting an eye on the group. Japanese tyre makers are already moving into the space left as western tyre firms shrink. Sumitomo Rubber is just one obvious possible Japanese buyer" (Economist, 30 April 1983, pp.79-80).

In an interview, Mr David Warbuton, the GMBATU's National Officer for the rubber industry also stated that:

> ".....there was an inkling through the ICEF that something was happening with Sumitomo" (19 March 1984).

However, no-one on the unions' side investigated the matter further. If they had done so, they would have realised from the information available that a divestment, or at the very least a

radical restructuring of the Group's activities was always a possibility, perhaps inevitable. Certainly, most other informed sources tended to think so.

Investors' Strategy for Dunlop

If the trade unions were largely unaware of the divestment strategy being evolved at Dunlop, investors were not. They were indirectly responsible for the formulation of this policy. It was because Dunlop had to satisfy the acquisitiveness of investors that it was forced to adopt this strategy.

Figures 5.1 and 5.2 show the changes in the share price of Dunlop, compared with that of the Motors group and the Financial Times - All Share Index, measured in both nominal and real terms. The fluctuations in the share prices in the former figure reflects how the Stock Market reacted to news of the oil crisis, plant closures, redundancies, divestments and other events. However, it is the inflation-adjusted movement in share prices which most concerns investors, because it measures changes in their ability to buy goods and services. From this latter figure, we can see that until about the middle of 1971, Dunlop had been performing better than the motor industry group, but then the positions completely reversed, apart from a brief period from early 1974 to the later half of 1976.

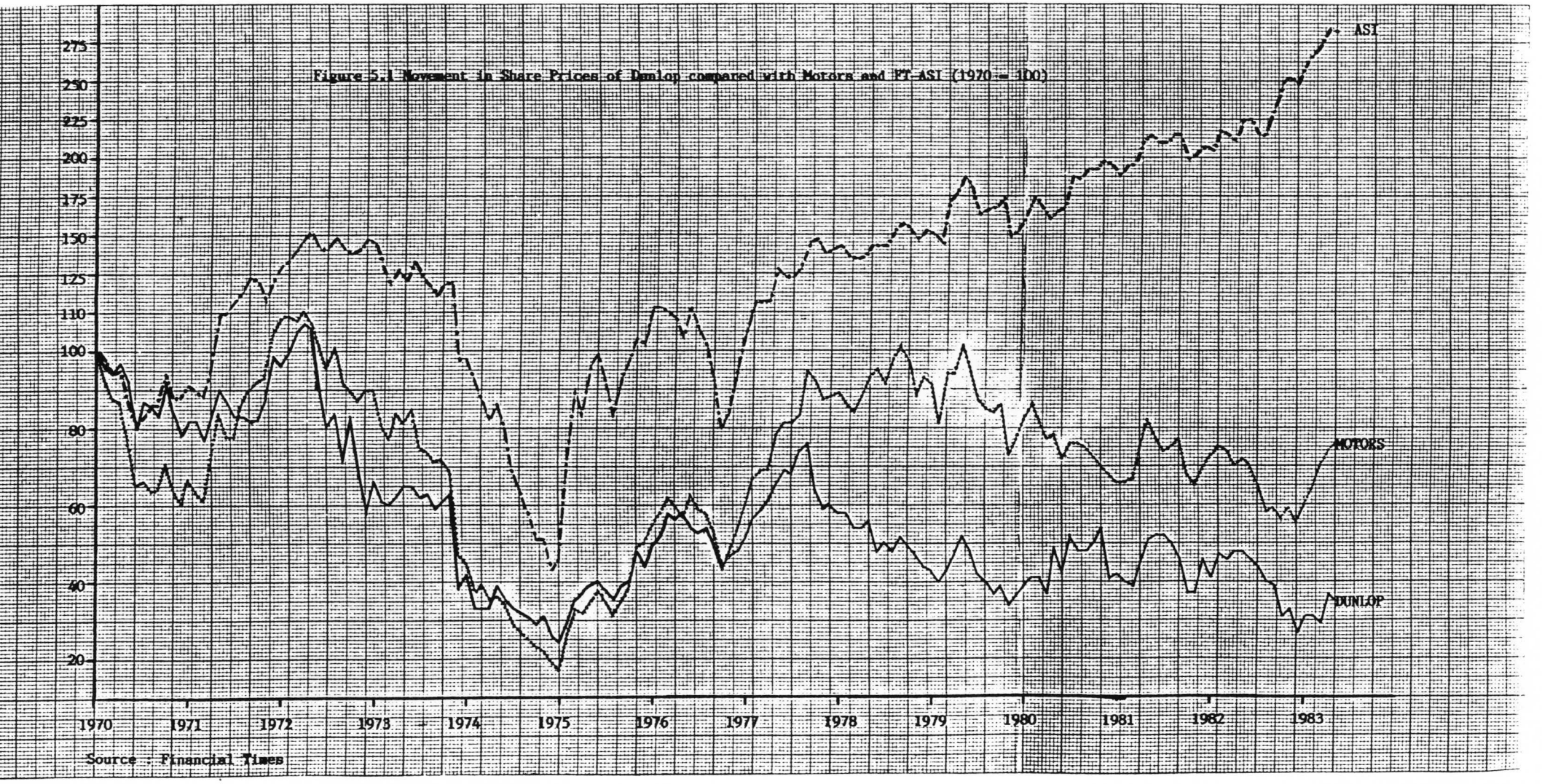
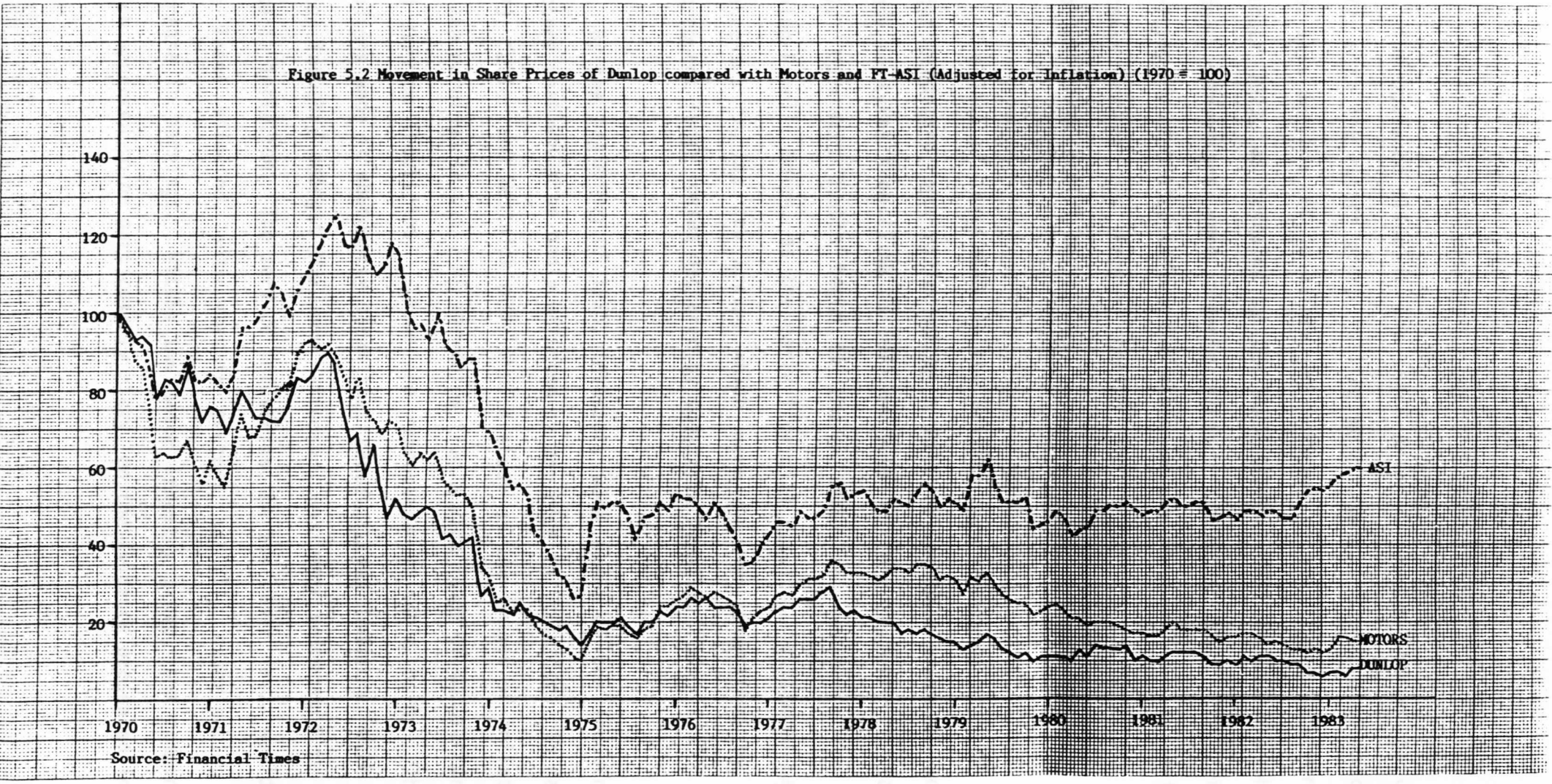


Figure 5.1 Movement in Share Prices of Dunlop compared with Motors and FT-ASI (1970 = 100)
275
250
225
200
175
150
125
110
100
80
60
40
20
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
ASI
MOTORS
DUNLOP
Source : Financial Times

Figure 5.2 Movement in Share Prices of Dunlop compared with Motors and FT-ASI (Adjusted for Inflation) (1970 = 100)



Source: Financial Times

The downward slide in the share price of Dunlop started in June 1972, with the motors group falling more slowly. It is also evident that this decline set in before the outbreak of the Middle East war in October 1973, as revealed by the much steeper fall in the All Share Index. Investors were clearly already concerned about the future performance of Dunlop before the onset of the first oil crisis, mainly because Dunlop was lagging behind her major competitors in the application of radial technology.

The lack of investment in the British tyre plants by most of the major producers was reflected by a fall in the UK's share of world trade in tyres from 11.5% in 1971 to 8.5% in 1972 (Appendix 1, table 30). Moreover, doubts began to emerge about the prospects for the Dunlop-Pirelli Union, as the early financial results highlighted major weaknesses in the new Group, which were further underlined by the subsequent large losses declared by Industrie Pirelli.

By the beginning of 1973, investors were aware of the industrial sectors that would be badly affected by any rise in inflation. In March 1973, Cutler and Westwick published a study on the impact of inflation on the earnings (e.p.s.) of companies from a wide range of manufacturing and service industries. These are reproduced in table 5.10. Their findings made it abundantly clear that manufacturing industry, with the motor industry amongst the worst affected, was very vulnerable to any rise in inflation. The service industries, on the other hand, would be the least affected, with certain sectors actually experiencing an increase in earnings. Within the motor industry group, the companies which appeared to be particularly risky, on the evidence presented in

Table 5.10 Average Percentage Change in CPP Earnings Compared with Historical Earnings

	Average decrease (increase) between CPP and historical earnings (%)
Electricals	- 174
Shipping	- 106
Motors	- 71
Textiles	- 65
Heavy Engineering	- 61
General Engineering	- 59
Miscellaneous Capital	- 48
Hire Purchase	- 44
Household Goods	- 44
Packaging and Paper	- 43
Tobacco	- 36
Banks	- 31
Wines and Spirits	- 30
Oil	- 26
Chemicals	- 23
Contracting and Construction	- 23
Miscellaneous unclassified	- 22
Electronics and Radio	- 21
Building and Materials	- 19
Office Equipment	- 18
Newspaper and Publishing	- 14
Food Manufacturing	- 14
Food Retailing	- 6
Stores	- 5
Merchants Banks	- 1
Mining Finance	- 0
Breweries	+ 20
Entertainment and Catering	+ 35
Insurance Composite	+ 78
Property	+ 228

Source: Cutler and Westwick, 1973, p.21, table 4.

table 5.11, were British Leyland and Dunlop. Their major problem being, along with a large number of other manufacturing companies, the very high depreciation and stock levels relative to earnings.

Table 5.11 Estimated Effect of Inflation on Companies in the Motor Industry

	Historical e.p.s.	CPP e.p.s	Total decrease	Deprec. (loss)	Stock (loss)	All other P & L Account items gain	Gain on short money	Gain on long money
British Leyland	2.9	- 1.2	-141	133	191	2	134	47
Lucas	21.4	11.8	- 45	29	27	6	-17	22
Assoc. Engineering	6.1	3.1	- 49	51	85	6	20	60
BBA	5.2	3.7	- 29	30	39	5	20	16
Dunlop	10.8	0.8	- 93	94	112	5	5	103
Average			- 71	67	91	5	32	50

Source: Cutler and Westwick, 1973, p.18, table 1

In an updated and slightly modified paper to the earlier study, Parker & Gibbs (1974, p.59, Figure 4) found on comparing the share price performance of these industrial sectors with that of the FT-ASI from 1 Jan 1968 to 19 July 1974, that the principal losers from inflation (motors and distributors, electricals, household goods) "substantially" underperformed the index. Similarly of the six sectors that benefited most from inflation (property, entertainment and catering, contracting and construction, breweries, miscellaneous (other groups), food retailing), all except entertainment and catering and food retailing outperformed the index. Parker and Gibbs (1974) concluded that:

> ".....the stock market is not, and has not been, so naive as to ignore the effects of inflation on company profits, and it already appears to have been making allowances for these effects in terms of the ratings attributed to different industry sectors" (p.59).

The shortcomings of these estimates by external analysts was that they were based on published historic cost information. What was needed was more accurate inflation adjusted information published by the companies themselves. The first oil crisis provided the stimulus for the development of policy in this direction:

> "When the first oil crisis occurred in 1973-74 the reaction of the stock market was swift, and the required scale of industrial "adjustment" was clear. Although the market appeared to overact initially, generous tax hand-outs and further considerations have left the cut in investors' wealth at around 30 per cent in real terms compared with 1962" (Bryer et al 1984b, p.225).

By 1977, most major companies were producing current cost accounts (Dunlop had introduced inflation-adjusted account in 1975), providing investors with more accurate information on the value of their investments and, more importantly, precisely which companies would be embarking on large-scale plant closures in the event of a further steep rise in inflation. With this uncertainty removed, the variability of share prices which had risen sharply to 32.1% in 1974, and then up to 48.9% in 1975, fell back to 16.9%, not far from the historic 1925-77 average of 15.1% (Ibid). Investors were now aware that plant closures were being planned across the range of manufacturing industry.

Nevertheless, it would appear that the Stock Market's pessimism of the prospects for the British motor and components industry persisted, as evidenced towards the end of 1977 when the share price of Dunlop (in the case of Motors, at the beginning of 1979) failed to match any improvements in the All Share Index.

In 1979, the world suffered a second oil crisis. Yet figure 5.1 shows that there was no exaggerated reaction from the Stock Market. This is because

> ".....investors knew that closures were coming well before that happened, and their impact had already been incorporated in changed share prices. In stock market jargon, they had already been 'discounted'" (Ibid, p.226).

Finally, in November 1983, the Dunlop shares were dropped from the Financial Times 30 Share Index.

Whilst investors were expecting plant closures, the trade unions were not. Yet the necessary information required to keep the trade unions as well-informed as investors was available in Dunlop's published accounts. The problem was that the unions failed to comprehend the implications of the published current cost accounts, or to be more exact, they totally discarded them. For example, the company's annual report in the possession of the GMBATU's research department, had the current cost accounts crossed-through, as if to denote their insignificance. This is hardly surprising in view of the fact that the TUC failed to make any representation to the Committee of Inquiry (Sandilands Committee, 1975) investigating the impact of inflation on corporate entities. Thus ensuring that it did not become a

matter of concern in trade union circles. In a wider context, it is symptomatic of the distrust that the trade unions have shown generally towards published accounts, stemming in part from the lack of technical competence from within the Labour Movement.

If the trade unions had examined this information and had been aware of its significance and implications, they may well have been in a better position to resist plant closures. In Appendix 1 we show that the incentive for companies to engage in capital expenditure may depend on the prospective rate of return relative to the cost of capital. The higher is the rate of return relative to the cost of capital, the more worthwhile investment will become, and vice-versa. This inducement to invest is represented by the valuation ratio "q", which is simply the ratio of the post-tax real rate of return on capital to its cost or, in other words, it expresses the relationship between the market value of the firm and the replacement cost of its assets. Up to 1974 (Wilson (Committee, 1980, p.144, table 37), the valuation ratio had more or less remained above unity. Thereafter, it fell substantially below unity, in the wake of the oil crisis, making divestment rather than investment the key concern. With the publication of current cost accounts, it became possible to calculate the valuation ratio for individual major companies.

Table 5.12 overleaf reproduces the valuation ratio for Dunlop from 1975 to 1983. Over the entire period in question "q" remained below 1. In 1979, with the onset of plant closures, it fell to 0.33 owing to the sharp fall in real post-tax profits in relation to the cost of capital. That year, Dunlop suffered a real post-tax loss of £47 million, compared with a declared post-tax historic cost profit of £1 million.

Table 5.12 The Valuation Ratio "q" for Dunlop, 1975-83 (£m)

	Book value of net debt[1]	Market value of equity[2]	Total	Replacement cost of assets[3]	"q"[4]
1975	215	56.1	271.1	718	0.38
1976	268	78.2	346.2	843	0.41
1977	273	128.1	401.1	1,075	0.37
1978	337	104	441	1,163	0.38
1979	287	84.8	371.8	1,133	0.33
1980	288	92.6	380.6	1,001	0.38
1981	317	96.1	413.1	879	0.47
1982	355	89.9	444.9	965	0.46
1983	352	76.8	428.8	864	0.50

[1] gross debt - liquid assets

[2] average share price x No. of shares (excludes preference capital)

[3] includes investments

[4] rate of return = $\frac{\text{forward looking real post-tax profits}}{\text{replacement value of trading assets less deferred tax}}$

cost of capital = $\frac{\text{forward looking real post-tax profits}}{\text{market value of equity plus net debt}}$

valuation ratio 'q' = $\frac{\text{real rate of return}}{\text{real cost of capital}}$ or $\frac{\text{market value of equity plus debt}}{\text{replacement value of trading assets}}$

It is evident from tables 5.13 and 5.14 that the primary cause of these large current cost losses were the tyre operations based in Britain and the European Community. The larger losses experienced by the former are evidence of the lack of investment and hence the predominance of much older plant in the UK. In fact, in 1981, an operating profit of £2 million was earned by the tyre group, although heavy losses were still occurring in the UK. This can undoubtedly be attributed to the higher profits from the modern automated plants in the rest of the world, especially in North America, and the closure of the older, unprofitable tyre plants in Britain and Europe. With the implementation of the closure plans after 1979, "q" rose to 0.38 in 1980

and finally to 0.50 in 1983, as Dunlop announced, not unexpectedly, the divestment of the company's European tyre operations.

Table 5.13 Analysis of Operating Profits (Current Cost) by Regional Location of Company, 1977-81 (£m)

	1977	1978	1979	1980	1981
UK	(1)	(8)	(34)	(43)	(29)
Rest of EEC	(6)	(4)	(3)	-	(2)
Rest of Europe	-	-	-	-	-
North America	8	5	(1)	(4)	9
Central & South America	1	-	-	-	1
Africa	5	6	10	15	12
Asia & Australasia	16	21	22	18	18
Total	23	20	(6)	(14)	9

Source: Annual Reports

Table 5.14 Analysis of Operating Profits (Current Cost) by Product Group, 1977-81 (£m)

	1977	1978	1979	1980	1981
Tyres	(8)	(12)	(24)	(25)	2
Industrial	13	14	5	5	2
Consumer	4	7	2	1	(4)
Sports	3	2	-	(2)	-
Engineering	4	2	2	(1)	3
Plantations	7	7	9	8	6
Total	23	20	(6)	(14)	9

Source: Annual Reports

Employment

The pursuit of this twin policy of product diversification and rationalisation of unprofitable production facilities contributed to large job losses. In 1970, Dunlop had a global workforce of 107,000 people, by 1983 this had fallen to 53,000 (Appendix 3, table 15a). The bulk of these job losses occurred after 1979, with employment falling by 45.9% between 1979-83 compared with 8.4% from 1970-79. More significantly, however, a very large majority of the jobs displaced were in the UK. Here, employment fell by 60% from 55,500 employees in 1970 to 22,000 in 1983; and roughly 50% of these jobs were lost during the period 1979-83, as opposed to 20.7% from 1970-79 (Ibid).

A key factor contributing to the reduction in employment in the UK, was Dunlop's policy of concentrating on overseas investment and production. As a result, the British workforce as a proportion of total employees fell from 51.9% in 1970 to 41.5% in 1983 (Appendix 3, table 15b). This did not, however, come as a totally unexpected surprise to the trade unions. For a union report stated that:

> "Given the allocation of investment plans during the remainder of the 1970's, this percentage (of total worldwide employees) seems very likely to continue falling" (GMWU, 1977, p.25).

Of the 23,000 jobs displaced from Dunlop's tyre manufacturing facilities worldwide between 1978 and 1982, 8,000 were in Britain; equivalent to 34.8% of the total tyre jobs lost (calculated from Appendix 3, table 16a). As a result, the UK accounted for only 10.9% of total employees engaged in tyre production in 1982, compared with 20.9%

in 1978.

These job losses certainly had a significant impact on company performance, as profit per employee from the tyre group, measured in money terms, more than trebled between 1979 and 1983 (Appendix 3, table 18), whilst tyre sales per employee increased by 84% (Appendix 3, table 20).

Conclusions

There clearly was a great deal of information in Dunlop's Annual Reports, industry statistics, stockbroker reports, newspaper articles, and other sources which, if properly analysed, would have revealed to the unions the direction of Dunlop's policies.

The European tyre market had shifted from crossply tyres to fabric radials and then to steel radials, leaving the tyre companies holding a considerable amount of redundant tyre-making capacity. Dunlop's response was to reduce its dependency on tyre production and to concentrate its investment overseas in non-tyre products. Thus, whilst investors were expecting plant closures, the unions by contrast were merely anticipating an unspecified number of job losses.

One reason why the unions were uninformed and unprepared was their virtual disregard of financial information. But, as we shall see in the next chapter, access to information alone would not have helped the unions to resist investors' strategies. They would still have needed to use this information, and this required a plan. Thus we also need to

explore why the unions failed to develop their own strategic conception of the rubber industry.

Accounting and Trade Unions : The Incompatibles?

A Case Study of Closures at Dunlop

Thomas William McGovern BSc., Msc., PhD.

University of Warwick

School of Industrial and Business Studies

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CHAPTER 6 - TRADE UNIONS, INFORMATION AND STRATEGY: THE ROLES OF THE TYRE SWP

On 5 November 1975, the Prime Minister, Harold Wilson, launched the Labour Government's "Industrial Strategy" (NEDC 75/71), from which evolved the Tyre Industry Sector Working Party. In this chapter we shall show that the trade unions became dependent on this tripartite body to put forward solutions to the problems faced by the British tyre sector. We shall argue that this effectively precluded the unions from developing their own information strategy for the tyre sector, so that they became incorporated into viewing the problems and their solutions from a "tripartite consensus", which in practice tended to reflect the perspective of management. The result was that after 1979 the SWP was unable to offer anything to their members beyond improving "communications" as a means of reversing the decline of the tyre sector.

As the job losses in the industry began to increase, the unions did put forward a number of policies, though many were never formally articulated. Amongst these were the following listed in table 6.1 below:

Table 6.1 Trade Union Policies for Protecting Jobs in the British Tyre Sector

1. Reversal of Monetarist policies;
2. Higher investment;
3. Import controls;
4. Import substitution and export development;

5. Shorter working week;
6. Planning Agreements;
7. Industrial democracy;
8. More accountability on the part of Multinational companies;
9. Nationalisation or a larger public stake;
10. Government aid;
11. Training and manpower planning;
12. Application of new technology to improve efficiency.

Sources: GMWU, Rubber Industrial Review 1982/83.
GMWU, Rubber in Crisis (unpublished).

At first sight these policies look impressive, but in reality they lacked content and were not supported by any detailed programmes. The unions failed to devise any strategic conception of the industry. We shall see that combined with the short-comings of union organisation at Dunlop and their preoccupation with wages and sectional interests, this effectively undermined their ability to fight plant closures. We proceed in three stages: in Part (i) we analyse the constraints imposed by tripartism. In Part (ii) we analyse how the trade unions were outmanoeuvred into accepting the abolition of national bargaining. And in Part (iii) we show that with the failure of the SWP and the removal of national bargaining, the stage was set for unopposed plant closures.

Part (i) The Constraints of Tripartism

The NEDC (National Economic Development Council) was set up by the Conservative Government of Harold Macmillan on 7 March 1962. Its purpose was "to seek agreement upon ways of improving economic performance, competitive power, and efficiency", (quoted from Middlemass, 1983, p.ix). Under the umbrella of the NEDC there were about 50 tripartite committees, known as Economic Development Committees or Sector Working Parties, covering roughly 60% of manufacturing industry (Ibid).

The SWPs grew out of the "Industrial Strategy" (NEDC 75/71) drawn up by the Labour Government in 1975. It was intended that the SWPs would implement this strategy in industries and individual companies. On the political level these new bodies performed an additional function, in that they enabled the Government to steer a course between Tony Benn and his supporters who backed planning agreements, and the CBI who were opposed to them. The setting up of the SWPs were

> ".....a means of appearing to institute planning agreements without actually doing much about them or risking breaking up the machinery of NEDC tripartism. The sectors were chosen, not because they were areas of desperate need, or ones characterised by great disparity of performance between companies, but because they were predicted to grow quickly in home as well as export markets" (Ibid, p.95).

Some 30 industrial sectors, including the rubber processing sector, were selected on this basis. A number of these SWPs were wholly new while others grew out of existing EDCs. The former differed from the latter in that they were tailored to specific industries. It was envisaged that the SWPs would cover a broader range of issues, though

probably in less depth, and report more frequently to Council. Inevitably, the SWPs were set up in those sectors which had a powerful trade association, or where there were strong links with the sponsoring department in the Department of Industry (Ibid).

The Committees were "tripartite" in composition, with representatives drawn from management, trade unions and the Department of Industry. Management members were nominated by trade associations and trade union members by the TUC. The Industry Division of NEDO provided a representative and a Secretary for each Committee. The appointment of the chairman and independent members was subject to a veto of each partner. These Committees, though set up at the behest of NEDO, government or individual sectors, were formed voluntarily and could be disbanded if the partners so wished.

Objectives of the Rubber Processing SWP

In 1977, the Rubber Processing SWP set itself the task of "arresting and reversing the decline of the British tyre sector". To achieve this, the SWP identified two key policy considerations. Firstly, to improve production efficiency in UK tyre plants and, secondly, to increase the sales and marketing efforts of the British producers. These policies evolved from the work of the Manpower Working Party, which was set up to investigate production efficiency improvements in the home industry. A guiding principle adopted by the Working Party was that:

> ".....the key to improving performance in companies will be security of employment for their employees and therefore.... increases in productivity should come through increased output and a higher world market share on the basis of stable employment" (NEDO/RP/IS (77) 18 p.1, my emphasis).

In the context of what was happening to the industry, this objective was clearly absurd. The tyre sector was suffering from overcapacity, and companies were planning to reduce their staffing levels. Nevertheless, NEDO set about quantifying the target level of output, based on market forecasts and productivity details provided in confidence by individual companies. This information suggested that UK productivity (measured in terms of weight of throughput per man hour) needed to be increased on average by 30% to match international standards (Ibid). It was calculated that if this was achieved, an additional 30% more capacity would be needed to absorb the surplus workforce and guarantee security of employment (Ibid). It was also estimated that an overall increase in production of a further 20% could be obtained from existing capacity, with more intensive use of plant, including increased shiftwork and reduced downtime. Therefore, in total, to guarantee security of employment an increase in production of around 50% might be required. The SWP appeared confident that UK tyre production could be increased over the following five years, provided that increases in efficiency were achieved.

The strategy envisaged increasing home production of car and commercial vehicle tyres by 5-5½ million units by 1981, equivalent to a 15-18% increase in production (see figure 6.1). NEDO itself stated that:

> "Overall market objectives call for a total increase in UK tyre production of up to 18% by 1981 from the present level of about 32m units.....The reduction in unit costs and the planned increase in production will be on the basis of more intensive plant utilisation and selective plant investment. The SWP has agreed on the need to increase relative production efficiency in the UK by up to 30% compared with with European competition.....If the continuation of increased efficiency, and increased sales can be achieved the SWP believe that security of employment for existing employees can also be achieved" (1977, paras. 1.10-1.12).

The Tyre SWP identified increasing exports as one major means of expanding production and sustaining jobs in the UK. An analysis of the British tyre sector's competitive position in world markets, prepared with the help of a data-base set up by the Rubber and Plastics Research Association, showed that UK exports were concentrated in Commonwealth and third world markets. By contrast, penetration of the important European and North American markets was notably shallow. These markets were therefore identified as the ones offering the best opportunities for increased sales, with the EEC singled out as the prime target for a number of reasons:

> "First, it provides a major opportunity for export led growth because it is a big market and there is scope for the UK to increase its small market share in continental Europe from the present levels. Second, it is a production intensive market with a high degree of international sourcing by companies. The distribution channels for developing UK tyre exports are therefore already in existence" (NEDO, 1977, para 2.16).

The basic premise of NEDO, that increased efficiency would enable the UK producers to gain a larger share of the European market, was based on the view that:

> "(t)he major determinant of market performance in the European tyre industry is the unit cost of production" (Ibid, para 2.26).

The SWP expected that of the extra output, 3.5 million car and commercial vehicle tyres would be sold in the Community, with a further one million going to North America and the Entrepreneural markets. On top of this, it was anticipated that a reduction in import penetration levels could be achieved by the Government encouraging the Japanese vehicle companies to set up assembly plants in the UK using a specified proportion of British components, including home produced tyres exclusively. This would have the dual effect of reducing imports of Japanese cars and, hence tyres, while also increasing OE tyre production for Japanese cars exported to Europe. It was estimated that by 1980, new car registrations could reach 1.6 million, with the Japanese share in excess of 10%. If all of these Japanese cars were produced in Britain rather than imported, this would expand OE tyre production by 0.8 million units. If in addition, the UK was also used as an assembly base for Japanese car exports to Europe, potential OE production would increase to 2.6 million tyres (NEDO/RP/IS (77) 18, paras 6.2-6.3).

An alternative means of boosting tyre production was the imposition of import controls on foreign tyres. NEDO calculated that a halving of imports could increase home production of car tyres by one million units within two years (para 6.4). The SWP's strategy was to use voluntary import ceilings to allow imports in 1981 to fall to levels which persisted in 1975 - thus encouraging the substitution of up to one million imported tyres by home production (paras 3.13 and 4.2).

The combination of this extra output with the 30% target for improvements to productivity implied a contraction in the workforce from 40,000 to about 34,000 in 1981. Assuming the high levels of labour turnover in the industry would continue, NEDO estimated that this reduction in employment could be achieved through "natural wastage", while at the same time guaranteeing secure employment for the remaining employees (paras 5.2 and 5.3).

Evaluation of the Strategy:

Production and Employment

It appears extraordinary that the SWP should construct a strategy to expand output to such a level, in order to accommodate a guarantee of secure employment along with a 30% increase in productivity, especially when all the available evidence clearly showed that the two objectives were incompatible. For example, graphs produced by NEDO for the SWP revealed that if a 20% increase in efficiency was to be achieved by 1981, together with security of employment, import penetration of car tyres would have to be reduced from the existing level of 25% to 2% (NEDO/RR/IS (77) 3rd Meeting). This was neither feasible nor achievable. NEDO must have realised this (and the union representatives on the SWP may have done), but appeared to accept that this was the only way of getting an agreement with the parties concerned. Management wanted improvements in productivity; the unions wanted job security. It should have been self-evident that in a stagnating market, both of these objectives could not be achieved, as indeed they were not.

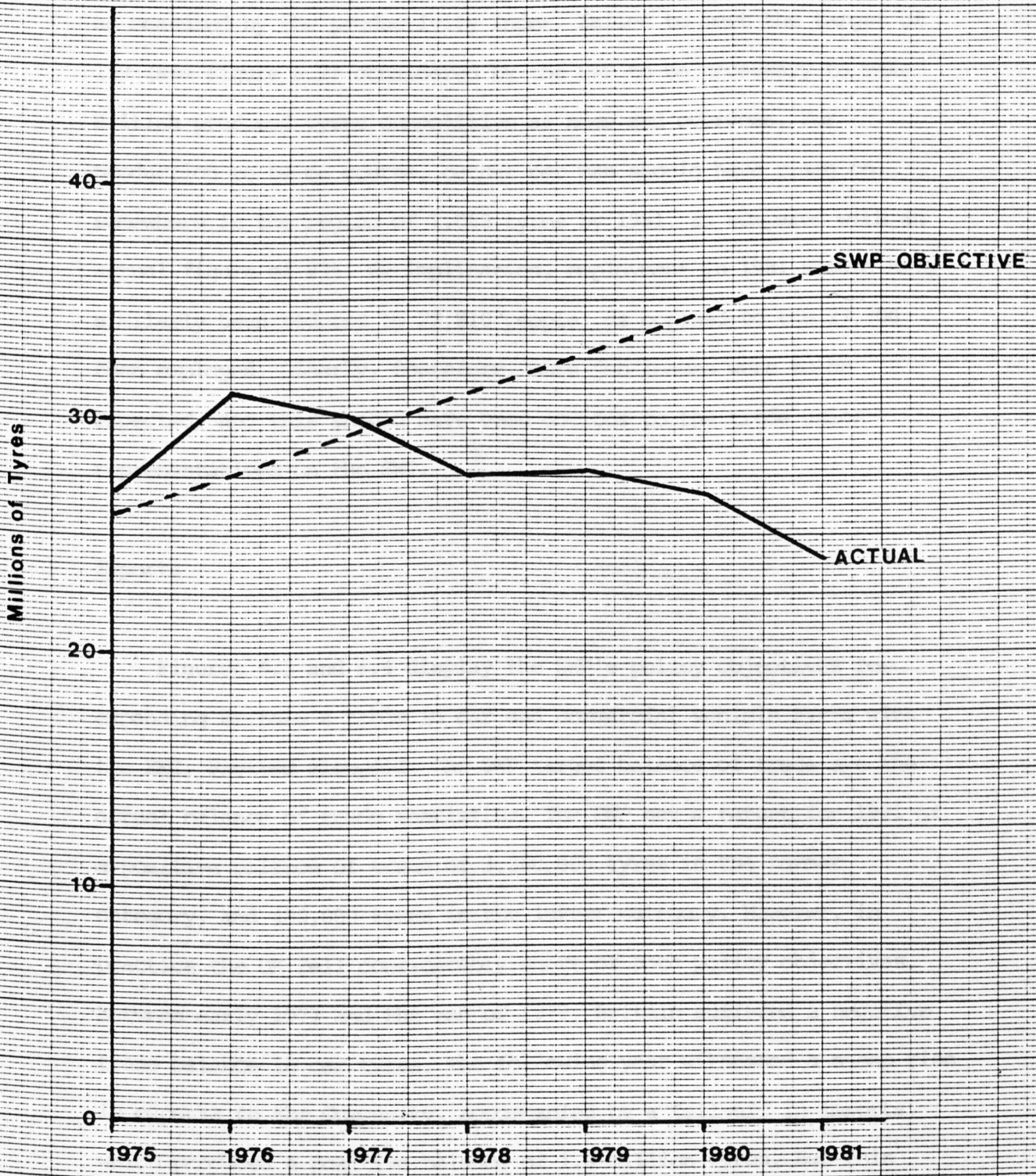
Table 6.2 shows that by 1981, total tyre production (car, truck, bus, earthmover, dumper and tractor) had fallen to just 24.2 million tyres, a considerable way short of the target figure of 36.3 million tyres (see Figure 6.1), whilst employment had shrunk to 27,700 people, compared to the target of 34,000.

Table 6.2 Employment and Output in the Tyre Sector, 1973-82

	Employment	Tyre output (millions)	Output/man	Productivity Index
1973	47,000	31,480	669.8	100
1974	42,800	28,621	668.7	99
1975	40,400	27,063	669.9	100
1976	40,300	31,003	769.3	115
1977	41,200	30,013	728.5	109
1978	40,300	27,641	685.9	102
1979	35,700	27,650	774.5	116
1980	32,800	26,884	819.6	122
1981	27,700$_E$	24,247	875.3	131
1982	25,500^E	24,798	972.5	145

Sources: Tyre sector employment, 1973-78; NEDO, 1979, p.7.
" " " 1979-81; RPPITB, 1980 to 1982.
" " " 1982 ; estimate
Tyre production, 1973-82; Rubber Statistical Bulletin (various issues).

Figure 6.1 U.K. Tyre Production (Car, Truck, Bus, Earthmover, Dumper and Tractor)



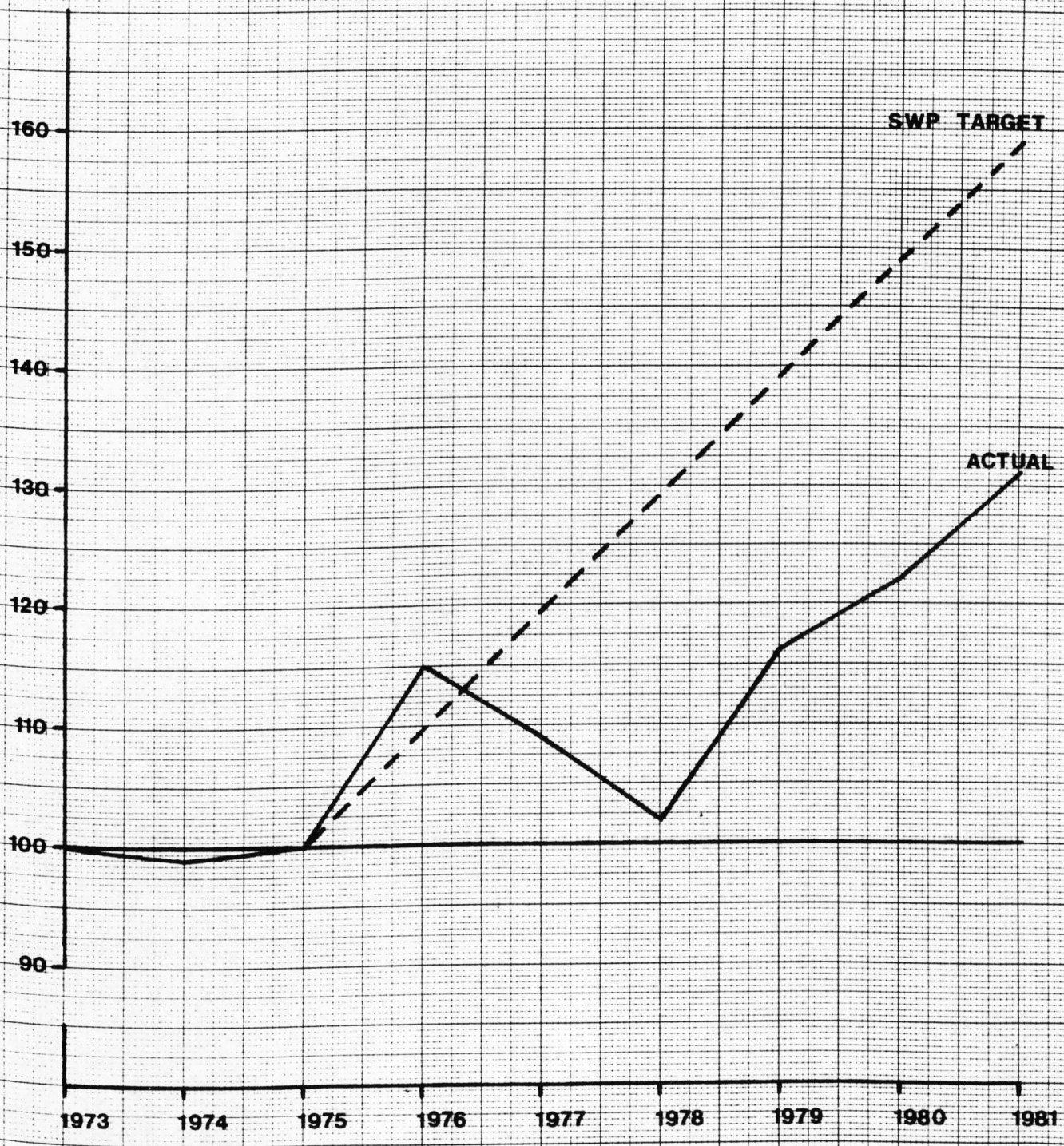
Sources: NEDO, 1979, p.7, Figure 3 and Table 6.2

Between 1975 and 1981, the net effect of the reduction in employment was to increase productivity, measured in terms of output per man, by 31%. However, the fall in the labour force was insufficient to counteract the decline in output. Hence productivity, as measured by the productivity index, failed to meet the target of 159 (see Figure 6.2) considered by the SWP to be necessary to make British produced tyres competitive at home and overseas. For production to be on course, output per man should have risen to somewhere in the region of 1,063 tyres by 1981, as compared with an actual figure of 875. By implication, employment in 1981 should have similarly been reduced to 22,810 people, as opposed to the 27,700 then employed. Clearly, therefore, more job losses were to be expected. And this should have been obvious to the trade union representatives on the SWP.

Exports

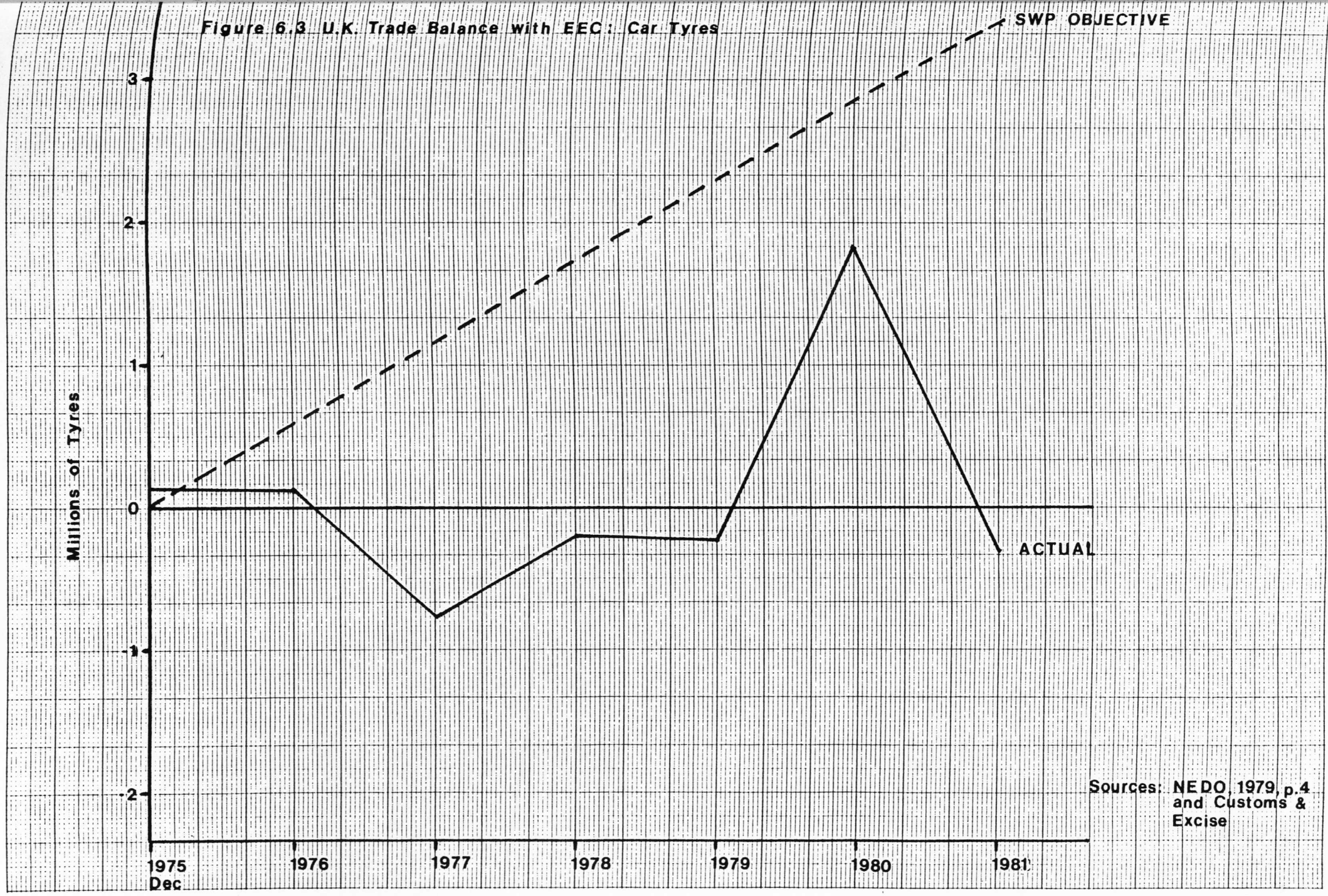
Figures 6.3 and 6.4 display the SWP's policy objectives for expanding Britain's trade in car and commercial vehicle tyres with the EEC. Plotted alongside the SWP target balance of trade are the actual balance of trade statistics. The SWP set a target for 1981 of a positive balance of trade of 3,360,000 tyres in the former category, and 480,000 tyres in the latter category. However, in practice the UK fell considerably short of both policy objectives. Between early 1977 and the end of 1979, Britain suffered a negative trade balance in car tyres. The following year witnessed a steep rise in exports to the Community, accompanied by a fall-off in imports, which produced a positive balance of 1.8 million tyres. But this still fell considerably short of the policy objective. A year later, in 1981, the UK recorded a deficit of 319,000 car tyres with the EEC.

Figure 6.2 Productivity Index for U.K. Tyre Production (1973 = 100)



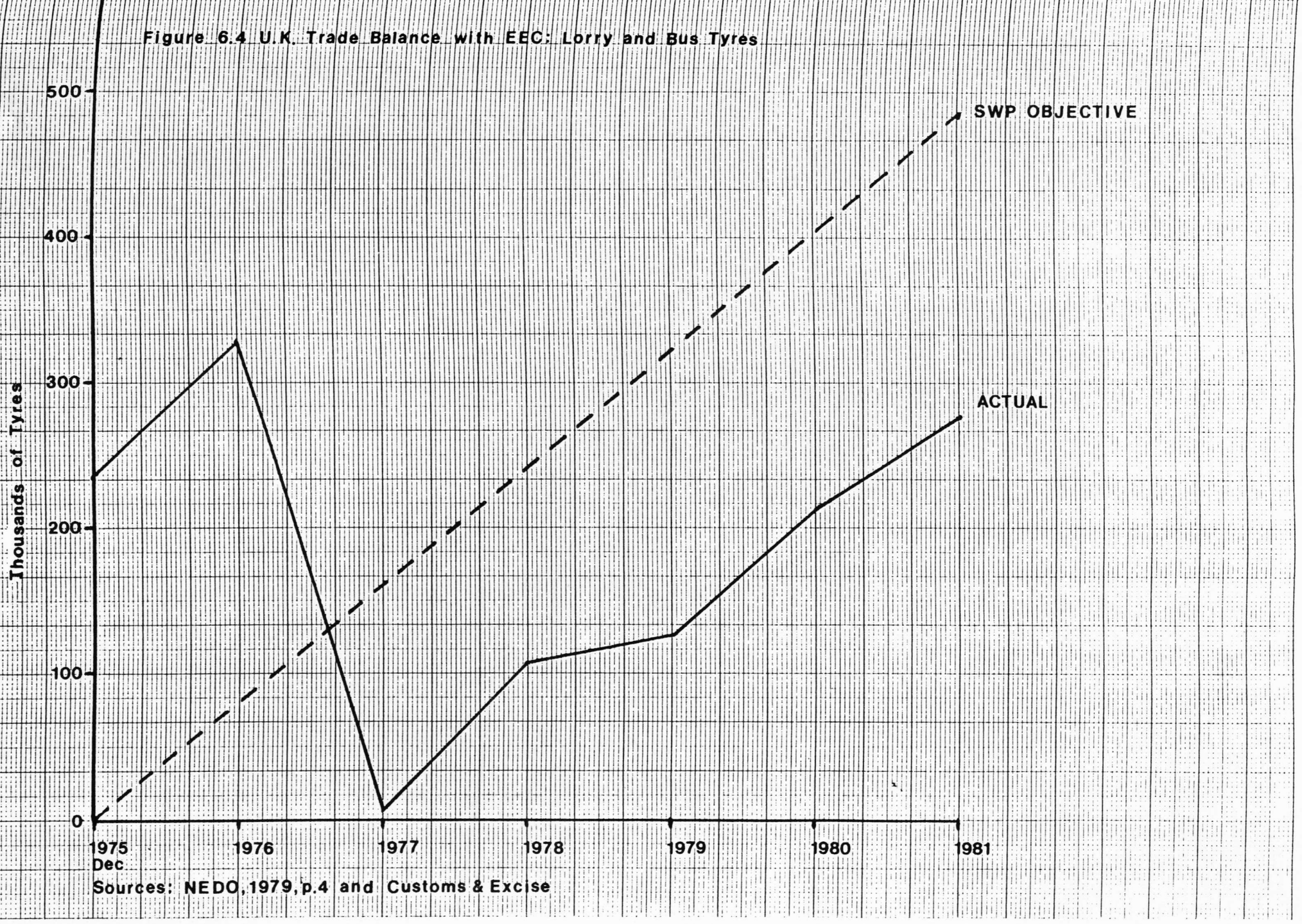
Sources: NEDO, 1979, p.9, Figure 7 and Table 6.2

Figure 6.3 U.K. Trade Balance with EEC : Car Tyres



Sources: NEDO 1979, p.4 and Customs & Excise

Figure 6.4 U.K. Trade Balance with EEC: Lorry and Bus Tyres



Sources: NEDO, 1979, p.4 and Customs & Excise

Trade in commercial vehicle tyres, by comparison, fared much better, inasmuch that no deficit was recorded. In 1976, a favourable balance of 325,000 tyres was recorded, but one year later the reported figure was just 8,000 tyres. The following years produced a steady upward climb in the trade balance, culminating in a surplus of almost 274,000 in 1981. Nevertheless, it was still 42.9% below the SWP target.

The primary reason why exports were unable to meet the targets established by the SWP, was clearly because its policy conflicted with the strategies being pursued by the tyre companies. During the 1960s, the tyre companies tended to treat the UK and the Continent as two distinct markets (Hood and Young, 1982, p.137). However, with the development of the EEC, and with Britain's entry in 1973, the tyre companies began increasingly to view Europe as one market, and they started to plan their production on that basis. This ultimately proved detrimental to the UK, which by now was experiencing poorer economic performance and lower economic growth than her European neighbours. As the overall size of the domestic market started to shrink, owing to the oil crisis and the effects of the growing use of the radial tyre, plus the declining output of the British motor industry, the tyre companies began to consider the UK less favourably as a production base (Ibid, p.146). They responded by using the British production facilities to source only the home and Commonwealth markets. A major feature of the sales policies of the British-based manufacturers was to export tyres all over the world, thus achieving only a shallow penetration in these markets (NEDO/TI (82) 17). The other European nations, by contrast, concentrated their sales within the European Community and by so doing, established a stable base from which to exploit other markets (NEDO, 1977, paras 2.19.1 and 2.19.2).

Imports

Towards the end of the 1970s, the SWP and the trade unions both expressed their concern at the rising level of tyre imports into the UK. According to the former:

> "Increased imports and decreased exports have undermined the whole basis of employment and efficiency in the UK tyre industry" (NEDO, 1979, p.6).

The trade unions responded by demanding the imposition of import controls to protect the domestic industry, whilst the manufacturers' representatives on the SWP, argued strongly against any restraints on trade. However, as import controls, apart from being contrary to Community membership, would clearly be in conflict with the intra-company sourcing policies of the manufacturers, the tyre companies would only agree to support the SWP in its anti-dumping action against "disruptive" imports from Eastern Europe.

Faced with these two opposing viewpoints, the SWP chose to steer a "middle course":

> "The SWP did not consider it realistic to set an overall import penetration objective for the home market because of the difficulties of anticipating the development of the trade balance with the EEC and the difficulties of predicting "cheap" imports of tyres from Japan, S. Korea, Spain and Eastern European countries.....the SWP will consider the possibility of setting voluntary import ceilings, for tyres with a view to reducing overall import penetration by 1981 towards the level which existed in 1975. The prospects for achieving this are good (sic!) because a substantial proportion of imported tyres into the UK are made by companies represented on the SWP as part of their international sourcing arrangements" (NEDO, 1977, paras 3.11 and 3.13, my emphasis).

In reality, the SWP must have realised that there was little prospect of the tyre companies voluntarily cutting-back imports of tyres into Britain. Dunlop, for example, had adopted a strategy of reducing its dependency on British production by concentrating a larger proportion of its investment overseas. Hence, Dunlop's British plants were short of steel radial capacity just at the time when the market was shifting to steel radials. Naturally, the tyre companies used their European facilities to meet the short-fall in domestic supply.

The SWP could do little other than call for "voluntary" import ceilings, because it had no powers to compel the tyre companies to comply with targets; while at the same time it needed to placate the unions which were now demanding import controls. The impotence of the SWP is clearly revealed in table 6.3

Table 6.3 Import Penetration of the Net Replacement Market, 1973-80 (%)

	1973	1974	1975	1976	1977	1978	1979	1980	SWP TARGET FOR 1981
Car and van	25	30	27	31	38	44	41	42	27
Commercial vehicle	n.a.	n.a.	20	17	35	33	33	39	20
Tractor	n.a.	n.a.	46	36	57	53	75	79	46
Earthmover/ Dumper	n.a.	n.a.	49	88	85	67	90	92	49

Sources: NEDO, 1978, p.2; NEDO, 1980, p.2, table 3; NEDO/TI (81) 9, table 7

Evidently, the tyre companies chose to ignore the NEDO policy objectives, as shown by the rapid increase in import penetration in all segments. The targets set by the SWP were not attained in any of the

market segments. In 1980, imports of car and van tyres exceeded the 1981 target by 55.6%, truck tyres by 95%, tractor tyres by 71.7% and earthmover/dumper tyres by 87.8%. In the last two categories, the level of imports actually exceeded the size of the replacement market, and so were being used to source the original equipment market as well (NEDO, 1980, p.2).

Inherent Weakness of Tripartism

An independent assessment of the prospects for the tyre sector, free from the constraints of a tripartite committee, would almost certainly have adopted an entirely different approch to policy. In fact in 1980, when it was too late, SRI International did carry out an independent assessment and analysis on behalf of the SWP. They suggested, not surprisingly, that the strategy should have been based on the British tyre sector's ability to win a larger share of the EEC and other markets by taking into account: the rate of growth of these markets; capacity constraints; the investment intentions of the tyre companies and their sourcing policies; and the international competitiveness of the British producers based on output, productivity, production costs and exchange rate movements.

To implement this strategy would have required the support of both management and unions, but this was not forthcoming. Management were only prepared to support the limited consultancy carried out by SRI International.

This notwithstanding, as we have seen from the previous chapters, a great deal of important information was publicly available. There was no technical reason, therefore, for NEDO to have relied upon the manufacturers to supply information that could have been readily compiled and analysed by its own staff. The SMMT publishes detailed information on the production, imports, exports and sourcing policies of the individual motor manufacturers. There are also a number of specialist research companies, such as DRI Europe and the Economist Intelligence Unit, that produce regular forecasts on the British and World automotive industries. Likewise, the Government, the EIU, the BRMA and the IRSG publish a considerable amount of information on the rubber industry, though it is not disaggregated to the level of the firm, as in the case of the motor industry. There was, nevertheless, sufficient published information available for NEDO to draw up a broad strategy for the British tyre sector. The SWP did not consider this approach. They were committed to working with company management, and to conduct serious planning with them

> ".....(would have) require(d) the SWP to find an acceptable way into areas of product and investment policy, product sourcing arrangements, industry competition and company strengths and weaknesses. All of these considerations are commercially sensitive. To a large extent, because of the multinational nature of the industry, they are also determined outside of the UK" (NEDO, 1979, p.12).

This dependency on company management exposes the inherent weakness of tripartism. NEDO is not a statutory planning organisation, and none of the tyre companies were interested in a sector strategy, voluntary or otherwise. The vehicle and components industries plan on a European and global level, making a "British" sectoral strategy irrelevant. NEDO was, therefore, left in the position where it could only put forward

policies which were broadly acceptable to both management and unions, because anything which was regarded as "controversial" by either side would have been rejected outright. Policy was accordingly reduced to the lowest common denominator which ensured that nothing was implemented.

Throughout 1978, the SWP continued to concentrate on its "expansionary" strategy, though it was clear that unlike employment levels, production was falling significantly behind target. Home demand for tyres continued to contract, while imports, particularly tied imports, continued to increase. Meanwhile the growth in exports was insufficient to compensate for rising imports and falling domestic demand (NEDO/RP/IS (78) 3rd Meeting, paras. 3.1.1-3.1.3).

The trade union representatives expressed their "concern" at the rising level of tied imports, but this was defended by the management nominees on the grounds that the British plants were unable to meet market demands. Messrs Hinton and Nairn, of Michelin and Dunlop respectively, argued that they were "forced" to increase their imports from Europe in 1974 and 1977 because of production difficulties in the UK (Ibid, para 3.3.2). This may well have been true, but after 1977 tied imports continued to rise, and this could not be attributed solely to production or supply problems in Britain.

The SWP remained concerned that production continued to fall behind target. Consequently, they decided to "monitor" output quarterly using RPPITB data. This was to be supplemented by plant level information, which measured productivity improvements over time for individual

factories and companies. The tyre companies were, however, unwilling to disclose this information to NEDO, claiming that it was commercially sensitive. Management were only prepared to disclose this information to their own local workforce.

On the face of it, it is very difficult to reconcile this reasoning with commercial logic. Certainly, commercially sensitive information had been made available to NEDO previously, and so this bald explanation can be discounted. A more plausible explanation was the negative attitude of the employers to the SWP. Management may have feared that this information would have given NEDO a powerful overview of the industry, and perhaps have encouraged NEDO to try and expand the role of the SWP. Furthermore, information on investment and productivity would have allowed NEDO to identify which plants were likely to close.

The workforce, by contrast, would not have been able to come to a similar conclusion through the possession of productivity information relating to their own plant. Also, it is likely that company management wanted to make comparisons with "best practice" to encourage higher productivity in individual plants. However, for the trade unions to have made stategic use of this information, they would have had to collate and analyse it centrally. On the basis of interviews with trade union research staff, there is no evidence to suggest that this in fact happened (or could have). Nevertheless, management may have appreciated this possibility, and attempted to discourage the passing-on of information by emphasising its commercial sensitiveness.

In 1978, the SWP decided to engage J. Walter Thompson to advise on a "communications programme" for the industry. During the course of visits to the tyre plants, and after conducting interviews with nearly 100 key opinion formers in the industry, the feedback that the consultants received from the shopfloor was that the major cause of the industry's troubles were cheap tyre imports from Eastern Europe (NEDO, 1979, p.15). The SWP decided to use this issue to raise its public profile with the rank-and-file employees, who were largely unaware of its existence. A "strongly worded" letter was, therefore, sent by the SWP to the Secretary of State for Trade, requesting anti-dumping action and/or selective controls on imports from Eastern Europe. It was this letter which paved the way for the first major tyre industry conference held in Birmingham during November 1978. Two days after the conference had finished, Dunlop announced the closure of its tyre plant at Speke, followed shortly after by the announcement that Firestone was pulling out of the UK. This proved to be a key turning point in policy, with any pretence that may have still lingered of reversing the decline of the British tyre sector now abandoned. As the SWP had to admit:

> "There is no visible progress towards the market share objectives which were agreed for the industry. Efforts by the SWP to reinforce action at company level in this area of production efficiency have not bought about the hoped for improvement in performance which is a necessary factor in arresting the decline of the industry. The SWP now finds itself in need of a fundamental rethink of the prospects and opportunities for the UK tyre industry" (NEDO, 1980, p.2).

If it was to retain its acceptability to management, the SWP was now forced to openly pursue policies that were consistent with the divestment strategies of the tyre companies. A strong emphasis was now placed on direct communications with employees, in order "to bring about

an improvement in production efficiency at plant level" (p.3). By these means the SWP may have hoped to persuade the shopfloor of the need to accept changes, so that a further decline of the industry could be avoided. Although the staff at NEDO may have been sincere in this belief, the managers serving on the SWP were fully aware that the British tyre sector was suffering from under-investment. They knew that only large scale investment in new plant and machinery could have made the British tyre plants as efficient as those on the continent. Moreover, more job losses were already being planned as obsolete crossply production facilities were to be phased out. This left the SWP facing the dilemma of calling for more efficiency at a time when plant closures and redundancies were being implemented. The SWP feared that this could seriously undermine its credibility and impartiality. Accordingly, the SWP sought to establish a much higher profile, particularly on issues important to the rank-and-file. Hence action on dumping may have been seen as one way of strengthening the position of the SWP (NEDO/RP/IS (79) 1st Meeting, para 4.4).

To press the case for higher productivity, members of the Working Party decided to organise a series of international plant visits by a small tripatite team to compare production practices in European tyre factories. To ensure confidentiality of commercially sensitive information, it was agreed that management members would not be invited to visit plants of their competitors. The purpose of the visits were twofold. Firstly, to observe differences in performance between plants and, secondly, to help the trade union leaders sell the idea of improving productivity to their members (paras 6.7-6.9). This was to be reinforced by the commissioning of a consultancy to establish best

international practice in tyre plants globally. The aim of the SWP policy was ostensibly to attract more investment by encouraging changes in working practice that would lead to a reduction in the unit cost of production. This was based on the premise that,

> ".....though the SWP was unlikely to be able to influence investment decisions, it could influence the industrial relations climate and this in turn would have an impact on investment decisions" (Ibid, para 6.8).

But, as we have shown earlier, the tyre companies had no intention of increasing the levels of investment in British tyre plants. On the contrary, their intention was to close down factories and reduce obsolete capacity. The tyre manufacturers certainly welcomed any initiative from the SWP that led to a reduction in unit costs, because it suited their plans. But when the SWP proposed policies that the manufacturers opposed, they were simply disregarded. Hence, the proposal to draw up a productivity index showing tyres produced per employee, with an allowance made for differences in product mix, for the UK, Germany, Italy, Spain, Eire, Holland and Luxembourg, was abandoned simply because the tyre companies would not disclose the relevant information (NEDO/RP/IS (79) 4th Meeting, para 4.3).

To that time, the focus of policy had concentrated on the labour contribution to efficiency. The SWP now turned its attention to the capital contribution to efficiency. NEDO staff suggested that consultants should be employed to consider the prospects and opportunities for the British tyre sector, which would include an analysis of investment in the domestic industry. The management representatives at first expressed reservations about co-operating with consultants, probably

because it sounded too much like a sector strategy - an approach which had previously been rejected by the companies. Additionally, some companies were probably concerned about what such a study might reveal. In particular, those companies that were proposing to reduce their workforce, or to close down factories, were presumably not keen on announcing their future plans to the trade unions.

However, the employers eventually agreed to a consultancy, because they were persuaded that it could offer other benefits, including "educating" the shopfloor to understand the nature and cause of the decline of the industry (NEDO/RP/IS (79) 3rd Meeting, para 4.9.4). In other words, the study could be used to justify management's proposed changes in working practices, on the basis that if these changes were not voluntarily forthcoming, further jobs would be lost.

However, for reasons outlined earlier, the rubber companies provided only limited assistance to the consultants. This ensured that the final report, which at the insistence of the SWP was to provide a "framework for discussion" and was not to include "policy recommendations", was of no practical use.

Nevertheless, the report did paint a gloomy picture of the future prospects for the British tyre sector. It pointed to the old production facilities in the UK, and raised the question whether the tyre multinationals would be prepared to invest heavily in new plant and equipment in Britain which would inevitably displace production in their European tyre factories. The answer was a resounding no! Not surprisingly, some of the tyre manufacturers defended their position at

a presentation of the interim report, by declaring that the deline of the domestic industry

> ".....had been brought about by inadequate profits to fund productivity improvements via capital expenditure and/or technical development" (NEDO/TI (80) 2nd meeting, para 4.3.1).

The trade unions were not able to challenge the facts presented to them. All that the unions could do was to look to the SWP to "suggest" solutions for improving the prospects of the industry. For the most part, this now rested with the communications programme which was intended to confront those working in the industry with the "facts", so as to convince them of the need to change working practices and raise productivity.

With no prospects of obtaining a larger share of the static foreign replacement market, the SWP attempted to arrest the decline in tyre production by increasing home original equipment sales. In August 1979, John Cousins, the Chairman of the Tyre Industry SWP, wrote to Lord Trenchard, Minister of State at the Department of Industry, concerning the decline in car production and its impact on tyre manufacturing. In his letter, Mr Cousins recognised that there was excess capacity in the European motor industry, but he stressed that since the Japanese were contemplating establishing car assembly in Europe, it made sense for Britain to compete for these plants. So long as the cars produced were for existing Japanese markets in Europe, displacing those currently exported from Japan, then the switch in sourcing arrangements would not exacerbate the overcapacity in Europe. Efficiency had been initially identified as the key factor undermining the British tyre sector. Now,

rather belatedly, the decline in car output relative to our international competitors was recognised as an additional major factor contributing to the reduction in tyre production.

The SWP also petitioned the Government to introduce changes in the tyre depth law to stimulate sales in the replacement market; a measure advocated by the consultants, SRI. This would have produced a substantial short-term increase in sales which, unless the home industry had the capacity to meet this demand, would have accelerated the level of imports, as happened when the law was changed in 1969 (SRI, 1980, p.70). Other policy measures which stemmed from the consultants' report and were adopted by the SWP in their dealings with government included: the lowering of interest rates to encourage investment; a higher priority to the management of the exchange rate to encourage exports; and the control of inflation to ease the pressure on costs to increase competitiveness (NEDO/TI (80) 34, p.6). However, the first two policy recommendations were contrary to government policy and therefore were unlikely to be acted upon, whilst the third policy option was impossible to achieve. This was because British industry was suffering from under-investment, and so simply reducing the level of inflation would not have been sufficient to increase competitiveness.

Thus restricting imports once again resurfaced as a possible policy option as the home industry adjusted to decline. In 1980, undertakings were given by the Eastern European exporters to refrain from "dumping" tyres in the British market. Nevertheless, low cost imports still remained a problem as the worldwide recession was helping to undermine tyre prices. Japan, in particular, was identified as a major threat.

The trade union representatives on the SWP therefore - for want of an alternative strategy - came down strongly in favour of import controls to protect the domestic industry. However, as we saw earlier, there was never any prospect of implementing this policy because, firstly, it would have been in contravention of GATT and the Treaty of Rome and, secondly, it would have been strongly resisted by the rubber companies because it would have seriously infringed their international sourcing arrangements.

To counteract these restrictionist tendencies, NEDO produced aggregate statistics showing the trend increase in imports, together with details of changes in the trade balance. The aim of this paper was to dissuade the trade union representatives from arguing for import restrictions, by showing that the major area of trade imbalance was with the EEC, and especially France, which was a high cost producer. In the words of NEDO:

> "Any attempt to impose import quotas elsewhere would therefore be difficult to justify if similar action were not taken against France, which it should be noted is also our fourth largest export market. Action against French imports would, at the very least, be incompatible with EEC membership. Irrespective of the EEC, it would almost certainly invite a reaction, and not necessarily limited to the tyre sector. Quota action could also be damaging, even without retaliation, on the operation of tyre companies in the UK which also have French manufacturing facilties" (NEDO/TI (80) 17).

Shortly afterwards further papers were prepared by NEDO to argue against import controls from low cost producers, on the basis that 85% of the tyres imported into the UK in 1979 came from the OECD countries, while only 4% came from Third World countries (NEDO/TI (80) 20).

These papers appeared to serve their purpose by weakening the arguments of the trade unions. The employers were able to escape more or less completely unscathed by refusing to disclose their individual sourcing policies to NEDO, though again they added the rider that they were prepared to discuss these arrangements at plant level (NEDO/TI(80) 1st Meeting, para 4.1). The defence offered by the tyre companies was again that this information would prove invaluable to a competitor. Perhaps more pertinently, they feared that it might stimulate a reaction from the trade unions against those companies using a high level of captive imports, culminating possibly in campaigns similar to those conducted by the unions against the sourcing policies of Ford and General Motors. Disclosure at plant level, on the other hand, would be potentially less damaging to the companies, unless of course the trade unions attempted to collect and analyse this information centrally. Also, more importantly, redundancies would be implemented at plant-level.

Policy Constraints

The SWP proved to be powerless to analyse, predict, or prevent the run-down of the tyre sector for a number of reasons. Firstly, as a tripartite body, the SWP could only advocate policies that had the agreement of all parties, which effectively ensured that any conflicts of interest between the unions and employers were not translated into strategy. This gave the employers a veto. Secondly, any strategy for the tyre sector had to be an integral part of an overall strategy for the motor industry. This is because the British tyre sector was established to meet the needs of the vehicle industry:

> "Tyre plants were originally designed to match the scale of Britain's vehicle industry and in many cases tyre plants are adjacent to car plants" (NEDO, 1980, p.5).

Britain's motor industry, however, unlike those of our major competitors in Europe and Japan, was in decline. The slump in car production, accompanied by rising imports and falling exports, had contributed to the reduction in tyre output.

This was the crux of the problem for the SWP. No body that had been set up to cover the motor industry was able to survive for very long owing to the open hostility of the vehicle companies. The Motor Industry EDC ceased to function in 1971; whilst the Department of Industry's own tripartite committee, though not strictly analogous, set up in 1977 with a membership including Eric Varley, Jack Jones, Hugh Scanlon and Terence Beckett, met frequently but did not survive beyond 1979. Furthermore, the Motor Industry Tripartite Group (MITG) lay outside the NEDO structure, reporting directly to the Secretary of State for Industry. The MITG had a similar remit to the SWPs, though it behaved entirely different. It saw its role

> ".....to put pressure on management and the unions at local level to improve industrial relations, rather than to make recommendations on the main determinants of performance" (Elliot, undated, p.9).

The different approach to policy by the MITG, combined with the fact that it was not part of NEDO, effectively ruled out any serious discussion of a strategy for the vehicle and components industries. The motor manufacturers were in competition with one another and, like the tyre companies, they operated an international production and sourcing

policy. Thus, the car companies were no more committed to a sector strategy than were the tyre producers. The policies of these companies were to operate in the interests of their investors, which often conflicted with wider interests.

The sectionalism and weakness of the unions likewise effectively prevented the formulation of a coherent trade union strategy. Union leaders for their part were aware of their own limitations and inability to directly influence policy and events, particularly when power lay with the shopfloor activists. As Elliot explained:

> "The trade unions are well-organised in terms of membership but multi-unionism and differing power basis in different companies, Transport & General Workers' Union in Fords, and the AUEW in BL for instance, make the effective coordination of a national trade union policy difficult if not impossible. The TUC has no policy committee for this sector and the CSEU's interest in national policy is limited. Initiatives, therefore, tend to be hesitantly taken by national union leaders conscious that union power is largely located with convenors in the plants" (p.9).

According to Elliot, the interchange of information between the MITG and the SWP was limited. Apparently, the MITG was only prepared to disclose its forecasts of future car production, which he reported to be "wildly optimistic" and, anyway, the SWP preferred to rely on its own forecasts derived from the New Cars Demand Model Steering Group, a technical committee of NEDO. This, accordingly, begs the question of whether the lack of a strategy for the motor industry was crucial to the tyre sector. According to Elliot:

> "The managers couldn't see what general sectorial relations would add to individual relations between companies. Trade unionists thought institutional relationships were irrelevant to the basic industrial dependence.

> Representatives of the Department of Industry accepted the situation and saw their role as picking up issues relating to vehicles in the SWP and discussing them within the Department with the appropriate officials. Within the office itself the Section Head thought that industrial policy should be approached by asking where key sectors, such as vehicles, will be in ten to twenty years' time, and then telling component industries to take their cue from them. This constrasted with the SWP Secretary's views that the SWP didn't need a vehicle strategy to work with because multinationals in both cars and tyres no longer plan their production within national boundaries. Tyre companies source for the European market rather than the British one and hence the tyre industry is no longer locationally tied to the car plants" (p.10).

It is undoubtedly true that the motor and tyre companies plan on a global basis, and that in the narrowest sense of the word a sector strategy is largely irrelevant. However, this does not rule out a role for government in influencing the strategy of the motor companies, because of the importance of the industry to the British economy. It had been estimated that the total job significance of motor manufacturing, selling, repair and maintenance to the UK, before applying a multiplier, was of the order of 1.3 million people, or about 5% of the total workforce (Expenditure Committee, 1975, p.16). In the West Midlands, for example, between 1971 and 1973, the motor industry accounted for 16% of total local employment, approximately 6% of total manufacturing investment, and together with the components industry was responsible for 10.6% of total industrial output (CPRS, 1975, p.9).

In these circumstances, it can be argued that it was of paramount importance for government to develop a strategy for the industry. Working on the NEDO principle, an SWP could have been set up covering the entire motor and components industry; complemented by smaller working parties covering individual components. This arrangement may

also have encouraged greater co-operation across the industry by the trade unions, who may have come to recognise their common interests. Alternatively, the Government could have established a body which was "planning orientated", with an accepted direct input into the corporate policies of the manufacturers. If this policy had been adopted by successive Labour Governments in the postwar years, the Labour Movement would have at least understood investors' strategies, and thus arguably have been better-equipped to resist the run-down of British manufacturing industry.

Constraints on the Range of Issues Discussed

Apart from the role it played in lobbying for anti-dumping action against East European imports, and the pressure it continually put on government for a new tyre-tread law, there are few other areas where the SWP can be said to have had an impact. The major issues facing the SWP were the slump in the production of British tyres, the rising level of imports and job losses. Yet there was very little direct discussions of the factors responsible for the decline in output. The papers that were presented to Committee were focused on the issue of international competitiveness. Hence, policy prescriptions were heavily biased towards this aspect of efficiency: the need to raise productivity and reduce costs. There was, however, little investigation or analysis of the many other factors which contributed to the decline of the tyre sector including: lack of investment; divestment; sourcing policies; marketing and profits.

Many of the papers prepared by NEDO for the Committee can fairly be said to lack content and analysis. This is not a criticism of the ability of the staff at NEDO, but of the constraints accepted by the need to achieve consensus. A sample of these papers is listed below:

NEDO/TI (81) 5, International Comparisons of Productivity.
NEDO/TI (82) 7, UK Share of World Tyre Exports.
NEDO/TI (82) 15, UK Tyre Industry Employment.
NEDO/TI (82) 16, Output Trends in the UK Rubber Industry.
NEDO/TI (82) 17, Major Tyre Export Markets.
NEDO/TI (82) 19, Tyre Industry Investment.
NEDO/TI (82) 20, UK Tyre Industry Output and Costs.
NEDO/TI (82) 24, Import Penetration of the UK Tyre Market.

The major weakness of these papers was that they tackled issues at a very general and abstract level, and not at the level of the individual firm. This ensured that no concrete policy prescriptions were drawn up for each company to comply with, say, as regards production, tied imports, exports, investment, employment, etc. But with so much published economic and financial information available, it would have been possible for NEDO to do this without the co-operation of management - though it is very likely that this would have provoked a storm of protests from the employers. The tyre companies would not have welcomed the intrusion of a third party in their affairs, but in an oligopolistic industry dominated by a small number of multinationals, it is hard to believe that individual companies were not fully aware of

what their competitors were doing, and that much of the information withheld by the tyre companies could not be regarded as commercially sensitive. Evidently, it would appear that the employers were more concerned with preventing the unions from knowing what they were planning.

The oligopolistic nature of the industry also prevented any discussion of the rationalisation and restructuring of the tyre sector. There were no direct discussions on any matters which applied to any one company (rules under which the SWPs operate), particularly when the question of jobs and the future plans of any of the companies were involved. If the government wanted to discuss these matters, it would do so directly with the company concerned or else through the BRMA (trade association). The companies, however, reiterated on many occasions to Committee that they were prepared to talk with the unions locally on these issues. Though there is little evidence that any detailed discussions did take place with the trade unions, except to a limited extent as the work of the SWP began to increasingly focus on communications and participation, which was largely used to smooth the way for plant closures and job losses.

"Efficiency Dialogues"

In the previous sections we saw that the thrust of the SWP's policy was to increase output and efficiency and simultaneously guarantee job security. These objectives were to be achieved through the mechanism of "efficiency dialogues". To initiate this strategy, J Walter Thomson were engaged to draw up a communications package for the industry. The

objectives of this programme were:

> "to extend the dialogue beyond the SWP;
>
> to inform employees about the world outside the factory;
>
> to reinforce the management and trade unions leadership in companies" (NEDO (80) 60, p.5).

To achieve the first objective a conference was held in Birmingham in November 1978, to introduce the Rubber Processing SWP (later to become the Tyre Industry SWP), and to establish its credibility with the major opinion formers in the industry. The conference was attended by nearly 400 representatives from all seventeen tyre plants in the UK, plus government and trade union officials. It was the first time that management and unions had assembled together on a multi-plant basis (NEDO, 1978a, p.1). The conference was held "amidst rumours of plant closures and redundancies" (Ibid). The theme was the serious decline in competitiveness and employment in the British rubber industry, and the measures necessary to combat and reverse this position. The delegates unanimously agreed that a plant level communications programme along the lines of "efficiency dialogues" was needed to tackle this situation.

The SWP proposed a two-pronged attack to improve the performance of the tyre sector:

> "(1) by development and aggressive marketing of competitively priced tyres;
>
> (2) by more efficient use of all existing resources of both plant and manpower" (NEDO, 1978b, p.17).

The first "plank" of this strategy entailed reducing unit costs in the British plants, so that they were competitive vis-a-vis those in

Europe. This in turn was dependent on persuading management and workforce to make more efficient use of plant and labour. To encourage the two sides to acknowledge the need for change, the SWP suggested that two conditions would need to be met before the efficiency programme could be initiated in plants. These two conditions were explained in the following terms:

> "(1) it is important that all those who work in the tyre industry should feel and be involved in any attempt to achieve higher efficiency;
>
> (2) assurances on security of employment must be given to all those taking part in efficiency schemes" (Ibid, p.6).

However, as we showed earlier raising productivity in a stagnant market was incompatible with employment security. Further, without higher levels of investment in new equipment, the British plants could never be as productive or as profitable as the modern European plants. Moreover, the overcapacity in the industry was assurance enough that the older type factories in the UK would close soon.

Plant Development Committees

The SWP suggested that "efficiency dialogues" should be conducted at plant-level through existing consultative committees, or by establishing new plant development committees. This was clearly spelt out by John Cousins, the Chairman of the Rubber Processing SWP:

> ".....the present depressed state of the UK tyre industry will only be reversed by action at the plant level. That action is not a series of ad hoc changes but a carefully constructed system of planning and working which is devised by management and unions together and put into practice by

> them.....most of the action has to be centred on individual companies and individual plants" (NEDO, 1978b, p.IV).

The SWP envisaged that these committees would not simply become glorified quality circles concerned with just increasing efficiency, but that they would also cover a wide range of issues beyond traditional joint consultation. These would include: marketing strategy; employment trends; profits, etc, as they related to the plant (NEDO, 1978b, p.7).

The SWP also suggested that a similar type of body could be created at the divisional and/or company level. These bodies would then be able to discuss a much wider range of issues including the company's financial performance, new legislation as it affects the company and its employees, investment, manpower policies, market position, etc. It was felt that the exchange of views and information on these would help to "improve the quality of decisions and would complement the decision-making procedure" (p.8). The composition and procedural arrangements for all these bodies from plant to company-level would have to be agreed between management and unions. However, it was suggested in the document that the membership of the plant development committees should reflect the "technical nature" of the subject matter. To be effective, and to question management on a broad range of issues, from profits and investment to flexibility and manning levels, it would have been necessary for the union representatives to make substantial demands on their research departments. But this was not considered.

Instead, Mr David Warburton, the National Officer for the rubber and chemical industries at the GMWU, simply welcomed the document, and stressed that greater disclosure of information was paramount to enable the "exercise" to go ahead. He emphasised that the unions would want details about tied imports, information which had been requested and refused in the past. He did not comment on the use to which the information would be put, even though he stated to the Conference that:

> "If anybody was under any illusion that the whole dialogue was going to be a rather sophisticated exercise in indiscriminate (sic) demanning then that would have to be disproved quickly" (NEDO, 1978a, p.15).

This would appear to suggest that, while David Warburton may have rejected the notion that "efficiency dialogues" was to be used to pave the way for plant closures, he was certainly aware that job losses were coming and that the unions were seeking consultation on the implementation of management policy.

Further, as described in detail in Appendix 1, the rundown of the tyre sector was anything but "indiscriminate". Against this background, the attempts by the SWP to reassure the unions that any increase in efficiency would not be at the expense of jobs, appears very hollow.

> "The SWP has agreed that all existing employees will be guaranteed secure employment in so far as there is a firm commitment that there will be no redundancies as a result of an agreement between management and unions at plant level, designed to increase efficiency" (NEDO, 1978b, p.10).

How this was to work in practice is not clear, for the exact details of these assurances on the security of employment had to be agreed at "plant or shopfloor level". How, and between whom, these

agreements had to be reached is similarly opaque because the SWP made it very plain that these consultative or plant development committees,

> ".....must not usurp the role of the negotiating bodies and changes which they propose might require discussions within the established negotiating procedures before implementation" (Ibid, p.9).

In these circumstances, given that the issues under discussion included jobs and working practices, it is difficult to see how the consultative process taking place in the plant development committees, could be realistically separated from the negotiations process in collective bargaining. There was always the danger that these plant development committees could have impinged on, or operated on a parallel basis, to the existing bargaining system. This could have proved divisive and led to the undermining of the unions' negotiating position, because management would have dictated what issues were suitable for negotiation, as opposed to those which were only matters for consultation. Eventually the unions would have been forced to merge these bodies into the collective bargaining system. Management may then have responded by suspending all discussions/negotiations on matters arising under "efficiency dialogues".

The Failure of the Birmingham Conference

A major weakness of the Birmingham conference was the absence of the vehicle manufacturers, and the failure by delegates to consider the impact of the motor industry on tyre production. In fact, the decline of the British motor industry was not discussed in Birmingham (NEDO/RP/IS (79) 3rd Meeting, para 5.2). It was not until 1979 when,

for the first time, the UK had become a net importer of cars, that the relevance of the vehicle industry to tyre output was given any serious consideration by the SWP. For reasons explained earlier, there were never any prospects of devising a strategy for the entire motor and components industries. The tyre conference confirmed how far the SWP was operating in a policy vacuum.

Management and Union Views of "Efficiency Dialogues"

Perhaps at some logical limit "efficiency dialogues" offered the unions a means of extending the scope of collective bargaining. Perhaps many trade unionists supported this initiative because they thought that, at the very least, it could have allowed them to have access to more information. However, whether they planned to use this information is questionable, since there was a great deal of financial and economic data available which they had chosen to ignore. The more "enlightened" managers saw it as a means of moving from a "closed" to a more "open" style of management. Many other managers and trade unionists took a less radical view of the policy. They took it at face value, as a checklist of topics for discussion. However, in practice management were very willing to discuss issues concerning work practices, flexibility and manning levels, and certain other topics, but they were not prepared to discuss with the unions manpower planning, investment, finance and profit levels (Elliot, undated, p.19); matters presumably of extreme importance to those trade unionists intent on monitoring management strategy and extending collective bargaining.

There were some trade unionists who were sceptical of the SWP's approach. They realised job losses were "coming", but they did not appear to know that they were planned. For example, Mr Howlett, Engineering Branch Secretary at Firestone, expressed his reservations to the Birmingham conference. He said

> ".....the industry was being conned. It was all very well to say work hard, put more effort in, but production would not improve until plant was modernised and some investment was made. Jobs were being lost and the industry was dying because of lack of investment" (NEDO, 1978a, p.16).

This viewpoint became prevalent amongst many shop stewards when the benefits of "efficiency dialogues" failed to appear. The announcement of the closure of the Speke factory shortly after the conference had ended, convinced many of those who were present at Birmingham that they had been deliberately misled by management, who in their opinion were fully aware of the proposed closures. By the beginning on 1980, the SWP was forced to admit that the initiative "had not been a great success" (NEDO/TI (80) 2nd Meeting, para 4.3.9). In its view, a different approach was now needed, one that forced management and the shopfloor to confront the problems that the industry was facing.

Employee Involvement Programme

The SWP believed that it was necessary for it to become more directly involved in the communications process in each company, even though the question was raised as to the value of associating the SWP with briefings, so long as the information was fed into existing communications channels (NEDO/TI (80) 1st Meeting, para 3.7). One solution put forward was to involve the trade unions more closely in the

communications process, so that they could impress upon the workforce the need for change. This would not have been entirely welcomed by shop stewards, especially when factories were closing and jobs were being lost. However, owing to the serious decline of the industry, senior management in many companies were already addressing managers and shop stewards about plant and company performance. Foremen and supervisors were also being more closely involved. These changes were happening outside the traditional mainstream communications systems established in companies, such as works councils and consultative committees. It was these non-traditional channels which

> ".....seemed to offer the best opportunity for introducing the new idea of a message from the impartial SWP with a passionate concern for the well-being of the tyre industry" (NEDO/TI (80), 15 February 1980).

Most of the tyre companies appeared content to use the leaflets and briefing material produced by the SWP in their communications programmes. They were less willing, however, to allow the SWP to make its own presentation in their plants. Goodyear were, nevertheless, persuaded to allow the SWP to address members of the workforce at their Wolverhampton plant in November 1980. This was video-recorded so that it could be seen by all those working in the plant. Attendance was restricted to exclude SWP representatives from other companies. Circulation of the vido was also restricted to Goodyear.

Experience at Dunlop

Armed with the lessons from this exercise, the SWP continued on to the third stage of the plan devised by J Walter Thompson. A paper

presented to the Committee in May 1981 suggested that the next step was to overcome the constraints that had been identified:

> "Both management and trade union officials consider efficiency dialogues as a useful exercise but of limited use due to the lack of understanding and knowledge of the participants" (NEDO/TI (81) 6).

NEDO, nevertheless, proposed that the way forward was through an Employee Involvement Programme, whose objective was to bring about a change in attitude from managers, supervisors, and shop stewards through participation, which would they thought result in improvements to performance. This was to be achieved through an education and training programme designed to:

> "- increase the employees' awareness of the total environment in which the company operates;
>
> - increase management willingness to accept more employee involvement;
>
> - encourage employees to participate in the decision-making process" (Ibid).

Dunlop reluctantly agreed to participate in this experiment. The company believed that one-day conferences like those held at Goodyear were insufficient to establish a constructive dialogue. Instead, Dunlop thought that progress was best achieved through joint meetings at plant level, which considered the prospects of the tyre sector and the implications that this had for company policy and strategy.

During discussions between Dunlop and NEDO, it was suggested that these meeting could benefit from the participation of an independent third party (TI (82) 1, p.2).

At the next Committee meeting in July 1981, it was agreed that the Office should hold informal meetings with management and unions to implement this programme. The trade union representatives, however, raised two matters of concern. Firstly, they were opposed to the programme being funded by government and, secondly, they were hostile to any notion that companies should be directly responsible for the training of both shop stewards and managers. The trade union movement has long insisted that it alone should be responsible for trade union education, so as to avoid any danger of incorporation into management. The first problem was tackled by NEDO funding the programme. The second objection was overcome by engaging Professor George Bain, a leading Industrial Relations researcher at the University of Warwick, to undertake a feasibility study at Dunlop.

Professor Bain was asked to carry out a study to look at how communication/participation was working at Dunlop; the effect it had on developing efficiency dialogues; to identify those issues which required joint discussion and determination, and to evaluate and identify the training needs of employees to further the development of the participative process (Ibid, pp.2-3). Between December and January 1982, he held meetings with senior group and divisional management, and shop stewards from all the unions represented in the plant (rubberworkers, staff and craft). He was accompanied at the initial meeting by two representatives from NEDO and, at the later meeting, by two other acamedics from Warwick University, Roger Fawthrop, Professor of Financial Management, and Ian Watson, a Lecturer in Marketing. The initial meetings with the various groups were held separately, but eventually joint meetings were held with the rubberworkers and staff

and, finally, with them and senior management. After two initial meetings, however, the shop stewards representing the craftsmen declined to take any further part in the project, mainly because greater flexibility in working practices had already been introduced into the craft areas, and were not universally welcomed by this group of workers. They did not believe that this communications programme had any benefits to offer.

Professor Bain found that Dunlop had implemented many of the general proposals outlined in "efficiency dialogues", including greater labour flexibility, especially among craft workers, improved quality control, more efficient use of plant and machinery, reduced manning levels and lower unit costs. To convince employees of the need for change, the company had devised its own involvement policy together with a more "open" style of management. The objectives of this involvement policy were to achieve:

> ".....a higher degree of motivation.....leading to greater commitment to meet business objectives, (and thereby) improve overall effectiveness to the mutual benefit of both the employees and the company" (Ibid, Appendix A).

This was to be achieved through the use of Action Learning Groups, Briefing Groups and Involvement Groups (Quality Circles). Despite these efforts from Dunlop to present the unions with more information, Professor Bain reported the that they were "dissatisfied with the company's involvement policy" (p.5). This was because the policy emphasised "communication rather than consultation", or to quote one shop steward "management decides and we listen" (Ibid).

The trade unions saw communication as a one-sided monologue, with a limited amount of useful information coming down from senior management, but with very little going in the opposite direction. The shop stewards believed that this state of affairs had developed

> ".....primarily because they are sometimes (sic) not given adequate information and, even when they are, they have generally not had an opportunity to acquire the specific skills needed to assimilate, to analyse, and, if need be, to challenge what is being said. Since they cannot really satisfy themselves that what is being said is correct, they have either to accept it on trust or to reject it. Given the atmosphere which has been created by plant closures and large scale redundancy, they often choose to do the latter rather than the former" (Ibid).

The stewards felt that it was particularly in the areas of finance and marketing where they required more information. The information they sought included: group and divisional profit levels; budget details and the extent to which divisions were financially autonomous; the level and determination of transfer pricing; the contribution that foreign licensing agreements made to profits; short and long-term investment plans at home and abroad; and the viability of Fort Dunlop as a production centre. In the marketing area, the stewards wanted information on pricing strategy, sourcing policy and level of captive imports, and the company strategy for selling the extra production resulting from increased efficiency (Ibid, p.6). This once again demonstrates how little attention the trade unions had paid to analysing economic and financial information. For, if they had, they would have known that a substantial amount of this information was contained in the Company Report and other published documents. This also confirms that the trade unions had no real strategy for acquiring and using this information, and there is therefore little evidence to show that they

would have been able to use it constructively.

Professor Bain informed the SWP that these constraints could be overcome through "strategic mediation". In short, the third party would help to create a favourable climate which would allow the two sides to interact and reach an accommodation. The signs were considered to be very hopeful because management and trade unions, apart from the craft workers, supported the idea of joint meetings to discuss proposed changes. Strategic dialogues could begin at group level and, once started, they could be established in the largest division, namely Truck Tyre. The group and divisional meetings were to be chaired by Professor Bain, assisted by, depending upon the issue under discussion, Professor Fawthrop, Mr Watson and NEDO staff members. Following these meetings, the information could then be disseminated to all employees through trade union and company channels.

It was proposed that the experiment would run from March through to December 1982, with assessments made in May/June and December. If it proved successful, it could then be extended to other divisions in the company. The programme suggested by Professor Bain was put to the SWP in February 1982 for their approval. Whereupon, it was savaged by the AUEW representative who declared that it was not the SWP's business "to intrude on matters of job demarcation, plant maintenance, etc" (Secretary's meeting notes, quoted from Elliot, undated, p.23). The Chairman, John Cousins, felt that in the circumstances he had no alternative but to resign. The SWP suspended its operations, while NEDO sought to find a new Chairman and a new consensus around which to re-establish the Committee. In the meantime, the Employee Involvement

Programme was dropped from the agenda.

The AUEW's position was determined by the opposition of the craft workers at Dunlop to the Involvement Programme, mainly because their jobs tended to be the most affected by the introduction of flexible working practices. Furthermore, their members were still angry over the imposition of new working practices at the company's Washington plant, and concerned about the proposed changes to be introduced at Fort Dunlop. Perhaps, if John Miller, the National Secretary of the TGWU and Chairman of the Rubber Processing Manpower Working Party (the senior union official in the SWP), and an advocate of "efficiency dialogues", had been present at the meeting, he may have been able to persuade the trade unions to maintain their support for the Involvement Programme. Indeed, there were many trade unionists, managers and leading figures on the SWP, the Chairman, John Cousins, an ex-official of the Transport Union, and John Miller of the TGWU, who were strong supporters of "efficiency dialogues". The latter saw the exercise as a way of extending and strengthening the bargaining power of the trade unions. The Secretary of the Tyre Committee and his support staff from the manpower and industrial relations division in NEDO also supported "efficiency dialogues" because they believed it was a means of establishing consensus at the plant level (Elliot, undated, p.25). It would appear that these principal actors had pushed the idea of participation much further than their fellow Committee members would have wished. Moreover, the economic and political climate had changed since the inception of "efficiency dialogues", with the new Conservative Government having no commitment to its predecessor's Industrial Strategy and, of course, the tyre sector was now clearly in decline.

To sum up, without a change in policies on the part of management and the trade unions, it is difficult to see how doubts about this policy could have been overcome. If the Programme had proved successful there would have been pressure to extend the experiment to other companies. Some managers may have been concerned that this could have led to the introduction of industrial democracy through the back door, which many feared would undermine their traditional role and authority. For their part, the trade unions were divided between those who felt that the unions should not become involved in management, and others who believed that members' interests could only be properly defended by the trade unions becoming more involved in those areas, traditionally regarded as the prerogative of management.

The lessons from this episode show that, whilst the goal of NEDO is to achieve tripatite consensus, it is difficult to establish this at plant and company level. Management supported "efficiency dialogues" to the extent that it suited their ends by encouraging the workforce to see the problems of the British tyre sector in terms of declining international competitiveness, which could only be arrested by higher productivity and greater flexibility in working practices. The Involvement Programme, on the other hand, if successful, could have strengthened the bargaining position of the trade unions by encouraging them to participate in the decision-making process, at a time when management was planning to cut its workforce and reduce its dependency on tyres. However, the trade unions, for the most part, lacked detailed knowledge of the strategy being pursued by Dunlop. The shop stewards were prepared to participate in the Involvement Programme, in spite of the traditional union hostility to the involvement of third parties in

industrial affairs, in the hope that it would help to maintain and protect jobs in the company. However, as management were not forthcoming about future plans as they tried to impose new working practices, the unions could see few tangible benefits arising from this experiment and therefore withdrew their support.

Attitudes Towards the SWP:

If support for the role and importance of the SWP were measured in terms of attendance at meetings, then it would certainly rank as a low priority amongst some companies and unions. The attendance record shows that company representatives from Dunlop, Avon (also President of the BRMA), Pirelli and Michelin were present at most meetings. Whereas representatives from Uniroyal and Goodyear attended about half, and from Firestone a quarter (Elliot, undated, p.27). The BRMA and the Government (though there were three changes in representatives) were present at most meetings.

On the union side, representatives from the GMWU, TASS and APEX attended nearly every meeting, the TGWU about two-thirds, ASTMS about a half, and the AUEW a quarter (Ibid).

The SWPs produce reports not legislation, and their main aim is to try and achieve a consensus between the parties. In the case of the Tyre SWP conflict was reduced by non-agreeing members simply not attending. Thus, issues which were contentious or likely to produce diverging positions were avoided.

Management View

The attitude of the employers to the SWP was clear-cut. They regarded it as a relatively unimportant body compared to the BRMA, which was the industry's main vehicle for discussing problems with government. Nevertheless, it did perform an important function on behalf of the rubber companies. With the demise of the National Joint Industrial Council for the rubber industry, it was the one remaining body where the employers could meet with senior trade union officials and listen to their views. It was also a "neutral" forum where management (and government) could get their viewpoint over to the unions. The rubber companies were, therefore, content to use the SWP as a medium to get the message across to the workforce that the problems facing the industry stemmed from low productivity, and that only through more efficient and flexible working practices could the position be reversed. The same "propaganda" coming directly from management would have been treated with scepticism and generally ignored. However, once NEDO stepped outside the narrow constraints which the employers sought to impose upon the SWP, the rubber companies were not slow to show their disapproval.

For instance, in 1980, NEDO prepared two papers on "The future of the UK Tyre industry" (NEDO/TI (81) 3) and "Forecasts of markets and manpower requirements" (NEDO/TI (80) 38)). The rubber companies responded through the BRMA to leave NEDO in no doubt that these policy issues were not the province of the SWP, and that:

"the manufacturers have some doubts about the value of producing strategy papers of this kind, relating as they do to a national tyre industry strategy as opposed to a company strategy" (NEDO/TI (81) 4).

The BRMA then defined on behalf of the manufacturers what functions they believed the SWP should perform. These were as follows:

"1. the maintenance of a forum for discussions between the three participants;

2. to help build in Government a more receptive viewpoint on the assistance the industry needs during the current restructuring process;

3. to maintain a dialogue with the trade unions outside of the normal negotiating channels in order to:

   (a) reconcile more intensive use of plant with demands for a shorter working week;

   (b) obtain the acceptance of new technology and their effects on present working practices;

   (c) develop a programme which would bring about a change of attitude on the part of managers and operatives.

4. to help in the lobbying of Government, EEC and other bodies;

5. to be a resource which could be called upon to help with communications and 'efficiency dialogues' within companies" (NEDO/TI (81) 4).

Clearly, the rubber companies saw no strategic role for the SWP beyond acting as a communications channel for the employers. There was little that NEDO could do to extend the role of the SWP, because there were no obligations on companies to participate in these tripartite meetings. The tyre companies could simply have refused to attend meetings or have withdrawn from the SWP, without seriously damaging relations with government. This is because it was the BRMA and not the SWP which was the main vehicle for representing the industry's interests

in discussions with government. Broadly speaking, the role of the trade association was:

> ".....to act as the spokesman for the rubber industry, the guardian of its interests, a forum for discussion and a swtichboard for the exchange of views" (NEDO/TI (80) 39, p.2).

Companies dealt directly with their sponsoring division in the Department of Industry on matters such as financial assistance for new investment. Further, the Ministry did not allocate funds to promote a particular sector strategy, neither did it insist that companies should participate in the SWP, though they may have felt "morally" obliged to do so. In addition, the Department of Industry did not attempt to encourage the development of a sector strategy by participating in the SWP. The presence of their representative was to gather useful information on the industry, in particular the views of the trade unions, with which it had no direct contact. This then became another input into the framework of government policy-making.

The Trade Union View

The trade unions sit on these Committees for a number of reasons:

> "Access to information and management, the chance of participating in decisions, matters greatly to trade union leaders or shop stewards. Participating on the Committees is particularly prized by smaller trade unions,.....for this may be their best access to major employers, and their only chance to see an industry as a whole" (Middlemas, 1983, p.180).

The trade union representatives on the Tyre Industry SWP thought that it was a useful vehicle for obtaining information; the representatives of the BRMA and the Department of Industry were described by one union representative as a particularly valuable source of information. Another trade union member confirmed that the SWP reports provided information in an accessible form which previously would have been obtained from government statistics. In other words, NEDO provided a research service which could have been carried out by the trade unions, provided that they devoted sufficient resources to this task. The only data that NEDO produced which would not normally be available to the unions, because they did not have close ties with the employers association, was that collected by the BRMA; for example, on aggregate sources of tied imports by country of origin. However, careful scrutiny and analysis of government and other published sources of information would have enabled the unions to produce close approximates if necessary.

It seems that the unions were not clear what their role on the SWP should be, so that at times it oscillated between treating the Committee as part of the extended bargaining arena, and on other occasions as a policy and strategic development body. Each of these approaches has different implications for the trade unions.

If the former approach is adopted then there is little point in trying to achieve consensus, because management and unions are seeking tactical advantages which may later strengthen their hand in negotiations. Here, the trade unions and management are trying to elicit each others' views on a range of issues, but neither side is

prepared to divulge information or discuss matters which may give a tactical advantage to the other side. We have seen that in the case of the Tyre Industry SWP, management was not prepared to discuss investment, sourcing policies or future plans.

If, on the other hand, the SWP is to be a consensus reaching body, then this requires greater openness from management. To be effective, however, the unions would, by necessity, need to take a more proactive role in evaluating management strategy, and for developing policies that explicitly benfited their members. Otherwise, the unions could find themselves incorporated into management, helping to implement policies that were against the interests of their members. In reality there was no prospect of the SWP (or for that matter the unions) taking on this role, and it would certainly not have been welcomed by the employers. As one union officer pointed out:

> "It is clear that you cannot use the SWP to devise a strategy for tyres when the companies are competing with each other. They owe no allegiance to the UK because they are all multinationals and operate as such" (Interview notes).

In essence this is true. The SWP was not an appropriate vehicle for developing a sector strategy for tyre manufacturing, but this alone should not have prevented the trade unions developing their own strategy for the industry. Part of the reason for the failure of the SWP to progress beyond communication and participation, must therefore be attributed to the lack of policy input from the trade unions. This, in turn, appears due to the failure of the trade union representatives on the SWP to clarify their role, and the absence of any direct reporting lines to the membership. As Elliot explained:

> "The TUC's aim in trade union membership is to balance National Officers, Regional Officers and lay officials. In theory this should give a balanced, multi-layered trade union view in contrast to management which is usually at the highest level. In practice it leads to role confusion for the trade unionists who give varied answers to the question of who they represent. Answers vary from their union and parts of their union, to TUC, trade unionism, no-one (similar to the management view that they are there as individual men of wisdom to act in the best interest of the sector), and most combinations thereof. This role confusion serves a useful purpose in facilitating representatives to act with greater latitude than their constituents would often allow. This latitude is enhanced by the lack of reporting back and this is justified by the confidential marking on most papers which come before the committee" (p.26).

On the Tyre Industry SWP there was no balance between union officers and lay officials. With one exception, it contained all officers, either area, regional or national. The union side was led by John Miller, the National Secretary of the Transport and General Workers' Union. The only lay official was the APEX representative, who was the Branch Chairman at Fort Dunlop. The Manpower Working Party contained two additional lay officials, an AUEW convenor from Dunlop and a research officer from the GMWU. The management representatives on the SWP tended to be Chairman or Managing Directors of their respective companies or, at the very least, a director or senior executive of a relevant division. A number of these managers were also represented on the Manpower Working Party, together with two senior personnel executives from Dunlop and Michelin.

The preponderance of union officials on the SWP was probably due to the oligopolistic nature of the industry, with a relatively small number of very large multinational companies. This made it very difficult to

achieve a balance between union officers and lay officials, while at the same time ensuring that all the major unions were represented, along with shopfloor representatives from all the major companies. Trying to achieve all of these objectives may have produced an unnecessarily large and cumbersome committee that could not perform as a trade union "management team". This was indeed what was lacking on the trade union side of the SWP - a coherent union perspective. Unless all the individual trade unions were prepared to co-operate, exchange information, and develop a multi-union policy and strategy for the tyre sector, there was little prospect of the workers' interests being properly represented or protected. If the unions had co-operated in this manner, then their respective research departments could have shared the research, monitoring and servicing function between them. The trade unions would then have been better informed, and forewarned, about the strategies being pursued by each of the tyre companies. However, the corollary to this is that if the unions had organised themselves in this way, then no consensus could ever have been reached with the employers or the Government on the SWP, because the inherent conflicts of interest would have been obvious. The employers would, therefore, have eventually withdrawn from the Committee as it would no longer have operated to their benefit.

The lack of any defined reporting structure to the membership also ensured that the rank-and-file were not informed about what was discussed in these meetings. In the GMBATU, for example, the Regional Officer who sat on the SWP made reports to the National Officer, who then reported to the General Secretary. There were, however, no direct reporting lines back to the shopfloor. Instead, the Regional Officer

and the National Officer for the industry made a verbal report to delegates at the annual conference for the rubber industry, which only met once a year and therefore was an inappropriate meeting to discuss all the policy issues raised at the SWP. Other trade unions faced similar problems.

One solution would have been to appoint convenors and shop stewards to serve on the SWP. This idea was supported by two of the full-time union officials interviewed, because they felt that those who worked in the industry were more knowledgeable, and therefore better equipped to serve the interests of the membership. This was not necessarily true, however, because it precluded knowledge that could have been gained from reading published financial, economic and industrial reports on the industry, which were potentially available to anyone. Nevertheless, the presence of lay officials with back-up research facilities could certainly have improved the flow of information to the shopfloor, but this would have presented a new problem: How to relay information to the National Officer and the General Secretary, and to those plants with no representative on the SWP? One possible solution was for the convenors to report back to the regions and then on to the National Officer. Meanwhile, new trade union organisations, such as multi-union combines, could have been encouraged so that these could have also played a part in receiving reports and disseminating information to the membership.

Summary

It appears that the Tyre SWP encouraged the trade unions to limit their interest in the strategic issues facing the industry, a bias which the trade unions did little to correct.

An explanation for the general failure of the unions to develop a strategy for the tyre sector, and the apparent confusion in union tactics, will be attempted in Part (ii). We shall see that the trade unions were obsessively preoccupied with wages and narrow sectional interests, which left them largely oblivious to the policies being pursued by Dunlop, and that this rendered the workforce powerless to resist the implementation of the planned plant closures.

Part (ii) National Bargaining

The Abolition of National Negotiations

At the beginning of the century, the policy of the rubber unions was to achieve uniform rates of pay through national negotiations to prevent wage cutting. To this end, they were instrumental in encouraging the Government to establish a Joint Industrial Council for the industry at the end of the First World War. However, the functions of this body were

> ".....purely advisory or consultative and amongst suitable matters for discussion were....welfare and social subjects, suggestions, working hours, regularity of employment, output, improvements in methods and machinery, discipline, grievances, and disputes" (Report on the Establishment and Progress of Joint Industrial Councils, 1917-22, p.75).

The employers refused to countenance national negotiations through the Council on the grounds that:

> "..... the wages and conditions in the Rubber Trade are totally dissimilar and are dependent upon the wages paid in other predominant industries in the various localities" (Ibid, p.161).

A number of employers feared that to concede to union demands would strengthen the unions' bargaining position and raise costs. Consequently, some of the larger employers refused to join the Council. Evidently, the trade unions lacked the bagaining strength and organisation to compel them to do otherwise, and so the failure to achieve these objectives led to the collapse of the Rubber Council in 1920. But,

> ".....so little store did the union set by it and so heavy were the series of calamites and losses of that period that its demise went unrecorded by the union at the time" (Clegg, 1954, p.239).

Since there were no regional councils, negotiations became confined to the plant level.

The following years were to prove calamitous for the trade unions. The aftermath of the 1921 slump led to a slide in union membership which outweighed a simultaneous weakening of the Employers' Federation. Price-cutting and reductions in wages became endemic. Many employers were very strongly anti-union, forcing many works committees to be transformed into company unions (Ibid, pp.239-40).

The depression years of the 1930s saw further price reductions and cuts in wages. However, some of the more "progressive" employers realised that continuous price-cutting was not in their interests either, and they were aware that one way of eliminating price-cuts was to re-establish the Council, and through it agree national minimum rates. This would also guarantee that the more "progressive" employers did not suffer a competitive disadvantage by agreeing wages and conditions that were superior to those offered by their competitors, as they would be forced to follow suit. The only means available of compelling companies to do so, in the absence of strong trade unions or a powerful employers' federation, was by settting up a Trade Board.

Thus, in March 1939, the Rubber Manufacturing Trade Board was established. Its function was to determine minimum wages and conditions. The Board consisted of an equal number of representatives from the employers and the trade unions, plus three independent members appointed by the Minister of Labour. If the employers and union representatives were unable to agree on a joint recommendation, the independent members would cast their vote to support one side or other. When a decision was ratified by the Minister of Labour, it became legally binding on all employers in the industry, with penalties imposed on those failing to comply. The Board, however, had no mechanism for the settling of disputes. As a result, a National Joint Industrial Council for the Rubber Manufacturing Industry was formed in June 1940.

The NJIC differed from the Trade Board in that it was a voluntary body, composed entirely of representatives from the employers and the trade unions; there were no independent members. The unions represented on the Council were the TGWU, NUGMW, USDAW, and the United Rubber Workers of Great Britain (later to merge with the TGWU). The Council subsequently took over as the body which determined national minimum wages and conditions. These voluntary agreements were then referred to the Board (later to become a Wages Council under the Wages Council Act, 1945), comprising basically the same people who sat on the NJIC, plus the independent members, whose task was to recommend to the Minister that the voluntary agreements be made obligatory on all employers in the industry.

The success of the NJIC can be judged by the fact that membership increased from 37 firms in 1940 to just under 100 in 1950 (Ibid, p.244). There was little reason for the employers to remain outside. The legal compulsion of the Wages Council, together with improved union organisation, and the growing authority of the Employers' Federation, provided the necessary incentive to join. In 1958, the Wages Council ceased to operate, leaving the NJIC to set minimum wages and conditions for process workers.

During this period the trade union strategy in the rubber industry was to build up membership and organisation by "securing good relations with the employers" (Ibid, p.246). The employers, in the main, reciprocated by encouraging union membership because of the mutual benefits it offered to both parties. The employers were seeking high output in a period of prospertity and rising demand, which they did not want to see interrupted by industrial diputes, especially on issues of bargaining rights and union recognition. The unions in turn wished to secure their position within the industry.

As a consequence, the level of unionisation amongst manual workers, particularly in the larger companies, was high. Process workers were represented by the Transport and General Workers' Union (TGWU), the General, Municipal, Boilermakers and Allied Trade Union (GMBATU) and the Union of Shop, Distributive and Allied Workers (USDAW). Craftsmen were represented by the Amalgamated Union of Engineering Workers (AUEW), the Electrical, Electronic, Telecommunication and Plumbing Union (EETPU), the National Union of Sheet Metal Workers, Coppersmiths and Heating and Domestic Engineers (NUSMW), the Union of Construction, Allied Trades and

Technicians (UCATT) and other craft unions. A number of companies operated union membership agreements and de facto closed shops. Union membership amongst white collar workers, on the other hand, tended to be lower. Here the major trade unions were the AUEW's, Technical Administration and Supervisory Section (TASS), the Association of Scientific, Technical and Managerial Staffs (ASTMS), the Association of Professional, Executive and Computer Staff (APEX), the TGWU's Association of Clerical, Technical and Supervisory Staffs (ACTS) and the GMBATU's Administrative, Technical and Supervisory Section (MATSA).

However, the trade unions became increasingly dissatisfied by the wage levels set by the NJIC. Agreements reached by the Council were regarded by the process workers as minimum earnings levels (MEL), on which to build local agreements, except for items such as working hours, the length of annual holidays, and payments for annual and statutory holidays which remained unchanged,

In April 1971, Dunlop withdrew from the NJIC for the Rubber Industry because it no longer regarded the Council as "appropriate" because

> ".....its growing involvement in plant bargaining had reduced the importance to the company of industry-wide negotiations". (IRR, No. 25, February 1972, p.15).

Tyre building had previously been carried out largely by human effort, with operatives rewarded on a piece rate system. But with the conversion to radial technology, Dunlop developed new machinery which entailed "taking the trade way from the operative and putting it into the hands of the machine" (Heller, 1969, p.64). This allowed the

production of truck tyres, for example, to increase from 22 per hour using conventional methods to 46 tyres an hour (Ibid).

A management informant from Dunlop stated that the rapidly developing technology, from tube to tubeless tyres, and from crossply to textile radials and then to steel radials, as well as significant changes in tread depth, diameter sizes and the quality of rubber in a tyre, had left the payments system outdated and inadequate.

In addition, our informant claimed that the NJIC system was "inflexible" because similar rates were paid across the industry which took no account of the fact that Dunlop was competing with Goodyear, BL, Lucas, and other large companies in the Midlands for labour, and that the poaching of skilled workers was common place. The only way to compete was by paying higher wages. There may be some truth in this but it would hardly justify Dunlop's withdrawal from the NJIC. If it was purely a question of attracting and retaining skilled labour other solutions could have been found. More realistically, it would appear that the shift from national to company-wide negotiations by Dunlop and other large companies during this period was part of a strategy by these companies to exert greater control over their workforces. According to Beynon and Wainwright (1979), this type of corporate bargaining

> ".....represents a systematic attempt to control and regulate the relationship with their labour force" (p.167).

As part of this policy, in February 1972, Dunlop concluded an interim procedure agreement with the GMWU, TGWU and URWGB "to establish company-wide guidelines which leave sufficient room for effective plant bargaining" (IRR, No. 25, February 1972, p.15).

The agreement reached with the unions replaced the Rubber Industry's national negotiating machinery with company-wide negotiations conducted through a National Joint Committee and a smaller Negotiating Committee. The main functions of the NJC were mostly consultative, covering issues such as eduction and training, health and safety, and promoting efficiency.

The company side of the NJC consisted of the Group Industrial Relations Adviser, the Senior Industrial Relations Officer, the Industrial Relations Officer (Process Workers) and up to 7 additional management representatives. The union side comprised 4 representatives from the GMWU, 4 from the TGWU and 2 from the URWGB. Of these, one representative from each of the unions had to be the appropriate National Officer; the rest were lay representatives nominated by each union.

The Negotiating Committee comprised, for the company, the Group Industrial Relations Adviser, the Senior Industrial Relations Officer and the Industrial Relations Officer (Process Workers) plus 3 management members selected from the NJC. Whilst the union side consisted of the National Officer for each of the 3 unions, plus 3 lay delegates nominated from the 7 lay delegates on the NJC.

As far as pay rates were concerned, the new company agreement followed the practice of the Rubber Industry National Agreement in specifying only minimum earnings levels. The interim agreement laid down identical rates and allowances for those which were at the time operating throughout the industry. Wage rates above the company-wide minima were to be determined at local level.

Nevertheless, the trade unions soon became dissatisfied with the new bargaining arrangements, mainly because it did not produce the pay improvements that they expected, and so within six years the unions terminated the agreement. However, it is debateable how far this was an initiative of the unions, or whether they were manoeuvred into this position by Dunlop.

Management may have taken the view that whilst negotiations operated through the NJC, they would find it more difficult to secure changes in working practices and reductions in the workforce. Perhaps management were concerned that the "militant" shop stewards from Speke were able to use the Dunlop-Pirelli shop stewards' committee to influence the unions' negotiating position. Through their links with other stewards in Dunlop-Pirelli's plants throughout Europe, the Speke shop stewards had been able to establish an extensive organisation (see part (iii) for details). It may therefore have been in Dunlop's interest to ensure that the NJC ceased to function.

This has to be viewed in the context of the growing financial crisis that began to beset Dunlop. Campbell Fraser, the Chairman of

Dunlop, had been visiting the plants during 1976, briefing managers about the problems that the company was facing. Though some managers were apparently already familar with the issues.

Our informant, for example, had been talking with the unions during 1975 about the need to introduce a new payments system. Confidential company documents stated that:

> "At the time of the 1975 Annual Rubber Workers Contract the Management and Trade Union concerned mutually agreed that the Rubber Workers Wage Structure was outdated, unfair and required replacing".

A joint Management/Trade Union Committee was therefore set up to "research, develop and recommend a new Wage Payment Structure". Senior management suggested that the introduction of a "Plant-Wide Productivity Bonus Scheme" might be the remedy for "the general decline in Fort Dunlop's manufacturing efficiency".

Two wage payment structures were investigated: Scheme A which would have given an increase of pay to approximately 99.25% of all Rubber workers and provided a labour-saving to Dunlop of £392,143 over a 3 year period, and Scheme B which would have given an increase of pay to approximately 95.4% of all Rubber Workers and provided a labour-saving to the company of £5,437,994 over a 3 year period. Both schemes envisaged that the number of operatives at Fort Dunlop would fall from 2,950 in 1977 to 2,524 by 1980. The importance of implementing one of these schemes immediately was also stressed. It was estimated that a 12 month delay would turn a profit from Scheme A into a loss of £158,501 over the same 3 years period, whilst the saving from Scheme B would be

reduced from £5,437,994 to £3,511,524.

In 1976, the trade unions agreed to the introduction of the new wage payment structure. However, the report never reached the main Board of Dunlop, because it was not supported by many senior managers at Fort Dunlop. The authors of the report recognised that what they were proposing would have had a "profound effect" on other service departments. A key problem, according to our informant, was that control was centralised in London. As there was no Managing Director at Fort Dunlop to co-ordinate operations, each department worked "autonomously", jealously guarding their areas of control. The Technical department was especially concerned that its functions would become less important, whilst the Production department would become more important. Consequently, it was not until 1980 that the new system was introduced, following the implementation of the company's new policy of divisionalisation. In the meantime, the Speke factory had been closed, and there had been large job losses at Fort Dunlop.

Not surprisingly, by the late 1970s, the manual unions had become totally dissatisfied with the national-level negotiating machinery for the rubber industry. Agreements reached by the NJIC had come to be viewed as minimum on which to build local agreements, apart from, as stated earlier, hours of work, length of annual holidays, and payments for annual and statutory holidays, which remained the same. The unions, however, found that these arrangements were doing very little to ameliorate the problem of low pay in the rubber industry, because a large number of employers were paying little more than the NJIC minimum earnings levels. Plant-level bargaining appeared in many cases to have

had little impact in supplementing national agreements. A number of senior trade unionists appeared to conclude, therefore, that the only way of tackling low pay in the industry was to shift the entire emphasis towards local bargaining.

In many respects this appears to be an extraordinary conclusion as it is difficult to comprehend how reliance on plant-level bargaining only could possibly resolve the problem of low pay - particularly when it is highly probable that it is those employees in the poorly organised sites who experience the lowest earnings. Hence, the logical outcome of this policy is to produce a widening of differentials between those workers in the most highly unionised companies, normally the large multinationals, and those employed by the small rubber companies. Notwithstanding this, in 1977, the unions withdrew from the NJIC, leaving collective bargaining to be conducted solely at the subsidiary company or plant level. Shortly afterwards, on 22 February 1978, following the collapse of the NJC pay negotiations in December 1977, the Dunlop National Lay Delegates Conference decided to terminate the Dunlop National Agreement with effect from 11 March 1978. All that the trade unions had to say was that it was:

> ".....an important step towards more involvement locally on pay and conditions" (Bulletin in Dunlop Ltd, February 1978, No.13, p.2).

However, with the demise of these two bodies, the trade unions recognised the need to establish new broadly-based institutions. Delegates, therefore, unanimously agreed to set up a National Dunlop Trade Union Committee, known as the Dunlop Rubber Workers Joint Union Committee, comprising of those who were then serving on the Dunlop NJC.

However, the unions failed to recognise the potential strategic role that this body could fulfil: for instance, monitoring and reporting back on the financial performance of each plant (e.g. sales, overhead costs, investment), and on various aspects of, including changes in, management policy. Instead, the Committee was given a limited brief and purpose, which was to provide a "platform for united initiatives", in face of the centralised personnel policy operated by Dunlop (Ibid). This included discussions on strategies and objectives to be pursued in future local negotiations, most prominently the possibility of establishing a common date for all Dunlop workers' agreements.

At another meeting held in London on 18 July 1978, attended by representatives from the TGWU, GMWU and USDAW, the unions agreed to establish a Rubber Unions Joint Committee (RUJC). Membership was restricted to five representatives from both the TGWU and GMWU, and two from USDAW. In addition, each constituent union had the right to co-opt individuals onto the Committee "whose assistance would be valuable on specific matters of concern to the Committee" (Rubber Unions Joint Committee, notes of meeting held on 18 July 1978).

The aims and objectives of the RUJC were:

"1. To co-ordinate joint initiatives on behalf of UK rubber workers.

2. To consider the development of industrial relations within the Rubber Industry.

3. To evaluate the affects of collective bargaining of workers in the Rubber Industry.

4. To outline specific objectives in the areas of collective bargaining.

5. To receive reports on the activities of outside bodies which relate to the Rubber Industry.

6. To consider possible initiatives in the field of industrial training and re-training" (Ibid).

The key objective overlooked by the unions, however, was the need to understand the industry's and the rubber companies' strategies.

The Effectiveness of Local Bargaining

Following their withdrawal from national negotiations for the rubber industry and company-wide bargaining at Dunlop, the unions were left to pursue the interests of their members through local negotiations. David Warburton had made the case for local bargaining by arguing that the NJIC and the NJC had stifled effective wage bargaining, by encouraging some companies merely to abide by the minimum NJIC rate.

In an interview given on 19 March 1984, David Warburton pointed out that the abolition of these bodies had enabled "progress" to be made in pushing up wage levels for manual workers. The staff shop stewards at Fort Dunlop confirmed that the switch from company level to local wage bargaining had produced a large increase in wage rates. The convenors now negotiated the wage rates for the division, while the shop stewards negotiated the gradings for their respective sections. In these circumstances, the stewards could see company level negotiations offering few benefits to a "well-organised plant".

The main drawback of this parochialism for the trade unions is that the strong plants gain at the expense of the weak. More importantly, it

does little to foster harmony and unity, and it allows the company to play one plant off against another: "If Speke does not close then Fort Dunlop will". Furthermore, it may also lead to the reduction in trade union militancy within individual plants. As one steward said:

> "People are afraid to stand out in case management uses it as an excuse to close their plant or to get rid of them. Six or seven years ago there was unity, today the unions have to grab what they can. It might be ten years plus before the unions are able to establish a more powerful position".

The powerlessness and isolation felt by many of the weaker plants in the rubber industry was made very clear by the resolutions put to the GMWU's annual National Rubber Industry Conference in 1982. The Southern region put forward the following resolution:

> "That Conference discusses the possibility that due to the nature and structure of the rubber industry, a committee comprising of shop stewards from each Branch in the Region(s) representing members employed in the industry be established, and to meet on a regular basis" (Rubber Industry Conference, July 1982, Resolution No.11).

However, this resolution was later withdrawn.

The Northern region was also concerned at the weaknesses inherent in the new Dunlop negotiating structure. This region put forward the following two resolutions:

> "Re-introduction of a JIC to cover Dunlop Workers" (Resolution No.12).

and

> "Introduction of a national Dunlop workers' one-day Conference" (Resolution No.13).

Both of these resolutions were remitted for consideration at national level. But this did nothing to quell the anxiety felt at the grass roots of the weaker and more vulnerable plants and companies, as witnessed by the resolutions put forward the following year from Liverpool, North Wales and Northern Ireland:

> "That this conference asks the National Officer for the facility of national negotiations on wages and conditions as previously enjoyed within the rubber industry" (September 1983, Resolution No.3).

Notwithstanding the resolution from the Southern region, which appeared to recognise the need for a strategic body, albeit at shop steward level, the major resolutions revealed the inability of the union leaders to see beyond the immediate issues of wages and conditions, even though the rubber industry had suffered a loss of over 10,000 jobs between 1979 and 1982 (RPPITB, 1982).

However, a number of delegates argued that the disparity in wage rates was no longer acceptable. They saw national negotiations as one means of protecting and improving the earnings of the weaker plants. David Warburton, nevertheless, reminded conference of the problems in the past caused by lack of flexibility at national level. He pointed out that the biggest movement in basic rates had come since national bargaining had ended. Furthermore, the National Industrial Officer, informed conference that there was little prospect of the employers wanting to return to national negotiations, particularly when other NJIC's were coming under pressure from companies to disband. This appeared to do little to dispel the sense of unease felt by delegates, who cast their votes narrowly in its favour by 18 to 11:

> "This National Conference urges a positive consideration of re-establishing closer working arrangements within the trade union structure in this industry and in furtherence of this end, we request the re-forming of the National Negotiating Body" (Resolution No. 4).

Another put up by Yorkshire and N. Derby region was carried by 18 votes to 13:

> "This conference asks for the establishment of a main negotiating body at national level for the rubber industry, including Dunlop Ltd" (Resolution No.5).

The consternation felt by these workers was understandable since few had benefited financially from the abolition of national negotiations, but had instead suffered disporportionally from greater insecurity of employment. The 1984-85 survey of wages in the rubber industry, carried out by the GMBATU, revealed that the spread of the lowest basic rate for standard hours, covering 46 agreements, was from £47.97 to £114.40, with the average being £86.57 (the comparable spread for the highest grades, or skilled rate, was from £76.02 to £200, with an average of £107.44), compared to national settlements for the Pharmaceutical & Fine Chemical NJIC of £86.70 for 38 hours, and for the Chemical & Allied Industries NJIC of £85.12 for 38 hours. On this evidence progress in increasing basic rates had been relatively slow. Or in the words of the GMBATU:

> "Just under half of the agreements recorded in this survey had lowest basic rates above that achieved in the Pharmaceutical & Fine Chemical NJIC. However, by contrast this meant that over half did not achieve what in another process industry is considered a minimum basic rate" (UK Rubber Industrial Review, 1984-1985, pp.25-6).

These relatively low basic rates in the rubber industry were inevitably manifested in low average earnings, especially for those workers who did not enjoy supplements for shiftwork or premia for overtime, and they tended to be mainly women who were generally more dependent on the basic rate for the bulk of their earnings. This was confirmed by a survey carried out by the Department of Employment for October 1983, which showed that both men and women working in the rubber industry earned below average earnings for manual workers in manufacturing industry as a whole (Ibid, pp.26-7). Women in particular earned what the TUC described as poverty wages, £90 for a 38 hour week.

Thus, it is not clear how withdrawing from national bargaining helped the trade unions. National or company level negotiations offered them twin benefits. Firstly, it guaranteed the weaker plants a minimum pay award, which they could use as a "fall-back position". Secondly, it fostered unity. The abolition of the Dunlop National Agreement, on the other hand, undermined the influence of the comparatively well-organised Speke stewards, and placed the emphasis firmly on sectional interests. It would seem, therefore, that the union leaders were prepared to sacrifice job security in return for higher pay increases for the relatively few better paid workers.

The main beneficiaries of the unions' strategy would appear to have been management. It could obviously have been in management's interest to encourage divisions between different groups of workers at "competing" tyre plants, and so the unions' withdrawal from company bargaining arguably assisted Dunlop with its plans.

White collar trade unionists at Fort Dunlop were convinced that Dunlop had manufactured the development of local agreements to facilitate job losses. These trade unionists said that Dunlop had been trying to get the staff to pull out of company level negotiations for several years (staff and engineering workers were not covered by the NJIC). However, it was not until 1980 that the staff finally did so, the simple choice available was the prospect of large pay rises with local agreements, or very little otherwise. In the event, the staff at Fort Dunlop were asked to consider an offer at plant level equivalent to about 7½%, or nothing at the company level. Initially, the staff unions believed that this was in line with the company's policy of divisionalisation, because the Tyre group was not profitable. But, with hindsight, they recognised that events proved otherwise, and that the planning of divisionalisation was the prelude to rationalisation. At the time this possibility was not seriously considered by the unions.

Further, unknown to the unions, the Dunlop Board had in 1978 set up a team to evaluate capacity and manpower requirements for volume tyre production. The team reported that all of Dunlop's output could be produced in a relatively tiny part of Fort Dunlop by a small workforce using fully automated machinery.

Part (iii) Plant Closures

The scene had now been set for management to push ahead with plant closures. Our management informant stated that for management Speke was out-dated and should have been shut in the 1960s, whilst Inchinnan should have closed in the 1970s. He speculated that this had not happened because both plants were located in areas of high unemployment. Senior management had established close ties with successive governments, which were of mutual benefit. The former were able to secure important contracts, especially from the military, whilst the latter gained politically by maintaining jobs in the depressed regions.

Our informant also stated that:

> "Speke would not have been closed unless it had first been sanctioned by government".

He said that Dunlop had originally been offered £7 million to assist with new investment in Speke, but it had been rejected by the company. Hence, at a stroke Dunlop was able to rid itself of both the best organised and most "militant" workforce, as well as the most obsolete and least productive plant.

The closure of Speke signalled the virtual disappearance of the Dunlop-Pirelli Shop Stewards' Committee, which had been formed in 1970 in response to the proposed union between the two companies. Originally a British-Italian organisation, it extended its influence to include other countries, especially France, and other companies, including Michelin and Goodyear. The mainstay of the organisation were reputed to

be Charles Parker and Stan Pemberton (who was also the national President of the TGWU and a member of the TUC General Council) from Speke, with John Miller of the TGWU, the key union official involved.

The Committee held regular quarterly meetings, each meeting hosted by a different convenor, with expenses shared to cover travelling costs. There was always a prepared agenda, progress reports and minutes. The meetings proved a useful medium for exchanging information on wages and conditions, output manufacturing methods and new developments, which were the type of issues normally found on the agendas of Combine Committees (Lerner and Bescoby, 1966).

A key reason for forming a combine is to improve the wage bargaining position of the union in companies which bargain on a plant basis (Terry, 1985). During the 1970s a key objective of the unions was to push for inter-plant wage parity. However, Terry reported that wage parity was not regarded by combines as the same thing as company bargaining, since many stewards tried to preserve plant bargaining in order to prevent national negotiations being taken over by the national union officials.

The Dunlop-Pirelli combine was not recognised for bargaining purposes. It was, nevertheless, able to influence the unions' negotiating position, because any resolution relating to wages and conditions passed by the combine was put forward by delegates as a resolution at branch meetings. This gave the combine a potentially powerful influence over the unions' bargaining stance when the NJIC and the Dunlop NJC were functioning. Paradoxically, the unions' bargaining

strategy probably assisted Dunlop to implement its policy of divisionalisation. Their withdrawal from the NJC effectively left the unions in a "straight-jacket" where they were unable to influence policies and events beyond the immediate division.

The staff and engineers likewise established their own separate combines, organised across Dunlop. The staff combine existed for about 15 years, concentrating mainly on wages and conditions, so that with the demise of company level bargaining, it ceased to have any relevance. The combine eventually broke up in 1982 due partly to the opposition of certain MATSA officials, who were strongly opposed to unofficial union bodies.

Perhaps the major weakness of most of the union bodies and organisations that were established was that they concentrated mainly on wages and conditions. What was needed was a central body similar to that proposed, though too late, by the DRWJUC and RUJC, that could negotiate with Dunlop on strategic issues, and which would have been a far more effective mechanism than an NJIC. This would have allowed the unions to present a unified face, and would have inhibited management from using its policy of divisionalisation to isolate individual plants. Not surprisingly, Dunlop was not prepared to sanction negotiations on these issues.

Another key weakness facilitating closures was the role and function of the regional officials. One ex-regional officer of the GMBATU said that collective bargaining should be left to the shop stewards, because they were in a far better position to negotiate wages

and conditions. He saw his role as just "inspecting" the agreement before it was signed. Logistics dictated that he could not do otherwise. As a regional officer he was responsible for rubber, plus every other industry in the Birmingham area, excluding engineering. The only assistance that he had was that provided by five district officers, each responsible for their own area, These resources were clearly inadequate to provide the comprehensive service, support and co-ordination role needed to deal effectively with management.

The white collar unions faced similar problems. The 350 MATSA members at Fort Dunlop were organised on a branch rather than a regional basis. The branch had its own secretary and was "autonomous", which allowed it to make its own policy decisions within union rules. When the new regional officer took over in August 1983, he found (unlike his manual counterpart) that these arrangements made it very difficult for him to establish a "rapport" with the shop stewards. This was because the full-time convenor had direct access to management, and local management preferred to settle matters domestically, rather than involve the regional officer. The outcome was that the regional officer was only called in when there were grading disputes, or when a failure to agree was registered by a shop steward with a company, and the matter could not be resolved by the district officer.

Once again there was a need to exchange information and to co-ordinate policy, so that the regional officer was aware of what the company was planning. However, the logistical problems were formidable. The regional officer dealt with 106 private companies plus all public services including the National Health Service (staff side only). These

problems were compounded by the fact that the union had lost seven experienced officers in the previous three years through death and retirement, so that where there used to be three MATSA officers handling union business, there were now only two. Also there were increased demands made on the regional officer's time because of the severe economic problems in the region. In expanding industries managers are keen to assist in resolving problems, whereas in declining industries there is less urgency to resolve disputes, and they tend to be more time-consuming.

One obvious solution to the apparent lack of resources would have been an amalgamation between the TGWU and GMBATU, accompanied by an increase in the number of district officers. However, to link the regional officer closely into the shop stewards' committees to develop an effective organisation, which could offer a comprehensive service to the membership, would have entailed tackling the sectional interests of the stewards - who often jealously guard their direct contact with management and the shopfloor. There may well have been a precedent for doing this, since sectional interests had not prevented the unions at Fort Dunlop and other factories from forming Joint Shop Stewards' Committees to protect members' interests. Likewise, if the regions were able to offer a research and monitoring service to the stewards through the district and regional officers, this could be one way of improving overall union effectiveness. The regional officer would then be able to hold regular meetings with stewards to share information, and to brief them about possible developments in the firm or industry, which may assist the stewards in their dealings with management. This would still leave the convenors and shop stewards free to lead all negotiations with

the employers, but they would be encouraged to liaise closely with regional office for back-up information and advice; thus integrating the entire regional union apparatus into the negotiating structure.

Trade union organisation could also have been made more effective by extending it beyond the narrow confines of the rubber industry. This research has shown that all manufacturing industry is inter-dependent, with the rubber and tyre industries inextricably tied to the motor industry. Yet no evidence has emerged of the rubber unions establishing contacts with stewards in the motor industry or other segments of the components industry, even though trade unionists recognised that a forum for the motor and components industry - whether composed entirely of shop stewards or a combination of union officers and lay officials - would have substantially increased the bargaining strength of the unions.

Clearly, most trade unionists recognised the shortcomings of sectionalism, but were unable or unwilling to overcome it. This was also manifested at the international level where the unions had extended their organisation, but found themselves divided on ideological and political grounds.

There were two major international trade union organisations in the rubber industry: The International Federation of Chemical, Energy and General Workers' Union (ICEF), and the Trade Unions International of Chemical, Oil and Allied Workers (ICPS). The former was affiliated to the International Confederation of Free Trade Unions (ICFTU), and the latter to the World Federation of Trade Unions (WFTU). Most of the

affiliates to the ICPS were unions based in the Soviet Union, Eastern Europe, the developing nations, and France and Italy where the two largest federations, the Confédération Générale du Travail (CGT) and the Confederazione Generale Italiana del Lavoro (CGIL) were communist controlled. Although the CGIL had resigned from the WFTU, its affiliates still participated in meetings of the ICPS.

ICEF Activity

The decline in the European rubber industry, soon after the Dunlop-Pirelli merger in January 1971, led to redundancies and short-time working both in Britain and in Italy. The unions blamed these job losses on the rationalisation policies being pursued by the two companies. Shortly afterwards, in June 1972, Charles Levinson, Secretary General of the ICEF, demanded that they meet with an international delegation of trade unionists who had formed a "Permanent Dunlop-Pirelli World Council", representing the two companies' workers in twenty countries. The companies were informed that the delegation wished to discuss:

> ".....the short and medium-term (though not long-term!) international investment strategies of the companies, particularly in respect of possible repercussions on jobs and working time" (Business Week, 4 November 1972, p.38, my insert).

The World Council included many unions with whom the two companies had no dealings, including a number from countries where neither Dunlop nor Pirelli had manufacturing facilities. Also the Council excluded the large communist unions from its French and Italian factories. Thus,

Dunlop-Pirelli refused to recognise or to meet formally with representatives from this body. In addition, Dunlop management were not convinced that:

> ".....an international forum could possibly contribute to the solution of employee concerns or adequately substitute for solutions to local problems" (Northrup and Rowan, 1974, p.120).

Nevertheless, an informal meeting was held between Charles Levinson and the personnel director of Dunlop, and it was agreed that another meeting would be held involving, Levinson, the co-chairman of the World Council, Bob Edwards of the TGWU and Egidio Quaglia of the Italian union, Organizzazione Sindacale Fra i Lavoratori Chimici ed Affini (Federchimici), an affiliate of the Confederazione Italiana Sindacati Lavoratori (CISL), plus the personnel directors of Dunlop and Pirelli. The meeting was arranged for March 1973, but did not take place. It was originally cancelled because of the illness of the Dunlop personnel director, then in July 1973, Federchimici ended its affiliation to the ICEF. This was because the chemical affiliates of the three Italian federations merged into a co-ordinated organisation, dominated by the CGIL, which had no relations with the ICEF. After that the Dunlop-Pirelli World Council "ceased to exist except on paper" (Northrup and Rowan, 1979, p.268).

Dunlop's decision not to formally recognise that World Council, but to hold informal talks with Charles Levinson, appears to have been the result of a number of factors. The TGWU and GMWU, the two main unions in the British rubber industry, were both ICEF affiliates. Further, Bob

Edwards was, besides being co-chairman of the World Council, a national officer of the TGWU and a Member of Parliament. Dunlop and Pirelli recognised that diplomacy was called for, particularly since they had received bad publicity arising from job losses and industrial unrest. Management may also have viewed the ICEF and the World Council as a possible bulwark against the growing International Shop Stewards' Committee, organised by stewards in Britain and in Italy (Northrup and Rowan, 1974, p.120).

Evidently, management feared the potential "disruption" and activities of the international stewards' committee more than that of the ICEF, and probably calculated that, if necessary, the company might be able to reap some benefits from their mutual hostility.

International Shop Stewards' Committee

The Dunlop-Pirelli Shop Stewards' Committee was set up in 1970, in response to the announced proposed merger between Dunlop and Pirelli. The Committee centred around the shop stewards' movement in Britain and Italy, but it later expanded its coverage to other European countries, especially France, and other companies including Michelin and Goodyear.

The shop stewards' organisation set up an International Shop Stewards' Steering Committee to co-ordinate their activities. In Britain, they enjoyed the support of John Miller, National Officer of the TGWU (and an ex-Dunlop tyre worker and shop steward), which effectively gave the union a foot in both camps, since Bob Edwards was

the co-chairman of the ICEF sponsored World Council. In Italy, the Steering Committee received assistance from the CGIL, and presumably had close ties with the WFTU (Ibid).

The objectives of the Committee were to protect the jobs and interests of the rubber workers by building a stewards' organisation to match the organisation of the new Dunlop-Pirelli Union, and by doing so, increase shopfloor power on an international basis. The Steering Committee believed that the best way to win concessions from Dunlop-Pirelli was through industrial strength and direct action. Unlike the World Council, the Committee was opposed to multinational collective bargaining because of the economic, political and social differences between countries. The stewards were also keen to avoid

> ".....any moves in the direction of creating international 'company unions', with the workers seen as no more than members of some vast international corporation, in which their only hope of improvement comes from what they can win from the company" (quoted from Northrup and Rowan, 1974, p.121).

On 9 June 1972, the International Shop Stewards' Committee organised a "Day of Shame" or "Eurostrike" in Dunlop and Pirelli plants located in Britain and Italy, to protest about redundancies. Plants in other European countries were, however, not affected. In Britain, the strike was organised by the shop stewards, with no official backing from any of the trade unions. Indeed, the GMWU instructed its members not to participate in this action. The strike was therefore only partially successful, with about 7,500 of the total Dunlop-Pirelli workforce of 54,000 obeying their stewards' instructions. One small belting plant was completely shut down, and only ten of the fifty factories in Britain

suffered any loss of production. In Italy, the industrial action was more successful, with about 80% of the Pirelli workforce around Milan taking part in a two-hour demonstration (Ibid).

The next attempt at transnational industrial action by the International Shop Stewards' Steering Committee came in 1975. This was in response to the redundancies and short-time working which ensued in the European rubber industry in the wake of the oil crisis. Initially a shop stewards' conference was held in Turin, Italy in May 1975, attended by delegates from five countries. This was followed by a conference in Liverpool on 11 September 1975, attended by eighty-one delegates, of whom fifty-seven came from the UK, eleven from Italy, nine from Germany, and four from France. Of these delegates, forty came from Dunlop plants, sixteen from Michelin, eight from Pirelli, six from Goodyear, four from British Leyland, and one each from Firestone, Continental (Germany), and Innocent-Leyland (Italy), plus one CGIL union official, an academic and two delegates from an unknown Germany company (Northrup and Rowan, 1979, p.275). All the major unions operating in the rubber industry in these countries were represented, including delegates from the GMWU and I.G. Chemie, who were opposed to these meetings. Delegates passed a resolution calling for a complete one-day stoppage on 22 October 1975, as a protest against job losses in the industry.

The ICEF was opposed to this strike in line with its opposition to the International Shop Stewards' Committee. Charles Levinson's apparent aim was to extend the influence of the ICEF, by setting up World Councils for all the major companies in the rubber industry, as a prelude to establishing international collective bargaining. Although

the evidence would suggest that since the Dunlop-Pirelli World Council included unions not involved in negotiations with either company, and excluded the main communist unions in France and Italy, there was little prospect of this occurring. Consequently, Levinson found himself in conflict with the International Shop Stewards' Committee, which carried more "authority" amongst the rank-and-file than his "official" union organisation.

To protect the interests of his International Secretariat, Charles Levinson wrote to those unions affiliated to the ICEF, stating his opposition to the strike and requesting them not to support it:

> "I have been directed to inform you that no ICF affiliate is participating either directly or indirectly.
>
> Please be informed that none of the national federations or plant representatives of ICF affiliates, which represent the vast majority working in these companies, are in any way involved. This manifestly political maneuver is designed to further the penetration within our jurisdiction of WFTU strategies and political trade union forces who represent few workers in multinational companies. We ask affiliates to inform their shop-level representatives of this action in order to point up that it is not a spontaneous shop-steward activity but rather a maneuver of the Communist Party apparatus" (ICF Circular Letter No. 169/75, 17 September, 1975).

The national trade unions were similarly keen to assert their authority over the shop stewards' movement, and they duly instructed their members not to support the strike. Mr Biggin, the National Industrial Officer of the GMWU at that time, wrote to his regional officers reminding them of union policy:

> "News of the threatened stoppage has also appeared in the national Press, and at a meeting of the Executive Committee of the NJIC on the 24th September the Employers raised the issue, expressing the hope that such "unofficial" action would not be condoned by the Unions.
>
> The position in our Union is quite clear in that such proposed action will not be supported and you are requested to inform your membership accordingly" (GMWU, 30 September 1975).

The response to the strike call varied considerably across Europe. In Britain, Dunlop estimated that 4,524, or 10.2% of its workforce heeded their stewards' instructions. In total, four plants were closed, including Speke, the only plant to shut down in 1972. But,

> ".....because these plants were working on short time, the actual impact on production was negligible" (Northrup and Rowan, 1979, p.276).

The other tyre companies in Britain were unaffected. Only the Goodyear plant in Glasgow experienced a one hour stoppage on each of its three shifts.

No industrial action was reported in Germany, where the unions were opposed to any involvement, nor in Spain or the Benelux countries. In France, only two Michelin plants suffered any strike action. About 17% of the 27,000 workforce at Clermont-Ferrand struck for four hours, as did about 10% of the workers at Bourges (Ibid).

In Italy, the strike was more widely supported, but as it coincided with a major union demonstration, where 50% of Fiat employees and a similar percentage of members of the Industrial Union of the Province of Turin went on strike to protest about job security, it is difficult to

separate out the reasons for the strike. About 80% of the workers in the Pirelli plants at Bicocca and Milan struck for four hours. In other Pirelli plants in northern Italy there was a 40% response rate, while the factories in southern Italy were unaffected. Michelin factories also experienced stoppages, but the American owned plants were left unscathed. The motivation for the strike by Italian rubberworkers is therefore open to interpretation.

The next attempt to organise a European wide strike occurred on 7 March 1979, to protest about the announced closure of the Speke plant. About 50% of Dunlop's labour force in Britain came out on strike, but there were no similar strikes in Europe, only messages of support and solidarity. Further strikes planned for 11 April and 14 May were cancelled, mainly because most of the workforce had accepted redundancy and very little could now be achieved.

In their detailed study of the effectiveness of international trade union action in the rubber industry, Northrup and Rowan (1979) concluded that:

> "The record indicates that, despite claims to the contrary, neither the ICEF nor the Communist group has been able to develop effective multinational action in the rubber tire industry.....most claims of multinational union actions are more imagined than real and that purported support of one union for another over national boundaries almost invariably has amounted to little more than leaflet action or letters or telegrams of support to the unions and idle threats to the companies.....The demonstrations of the Communist-supported shop stewards organization, while sensational in a different form, also appear to lack the continuity and stability to build viable international union cooperation. Such disruptions can apparently be maintained over a long period in Italy, for short periods in France, and here and there in Britain. But the Communists have no support in

> Germany or the United States, and disruption, with its resultant loss of work and pay, does not gain long-term adherents. The strength of the Communists in Italy and France is in itself a major barrier to multinational union cooperation in the Western world, for it exacerbates the divisions in the labour movement.....international union cooperation, despite claims to the contrary, has not been a serious factor in labor disputes in the rubber tire industry.....It seems reasonable also to conclude that the prospects for more effective multinational union cooperation are not bright. Union divisions, divergence of national union interests, employee disinterest in losing work and pay because of problems elsewhere, the demonstrated ability of companies to handle a long stoppage and to avert product shortages, the increase in the number of nonunion plants in the United States and Canada, and the over-emphasis of the international union movement in this industry on publicity and sensation instead of a basic program and organization to support it are some of the obvious reasons for this conclusion. It therefore follows that the prospects for multinational rubber industry labour-management information meetings and/or bargaining sessions are poor for the foreseeable future" (pp.309-10).

Conclusions

There appear to be five main reasons why the trade unions failed to mount a serious challenge to plant closures in the tyre sector:

Firstly, the unions were divided. This was manifest at all levels of the unions concerned. Bargaining arrangements over pay and conditions were used to divide workers in one plant from those in another. Similarly, rubber workers were unable to recognise their common interests with employees in the motor industry, or workers employed in other sectors of manufacturing industry. Even at the international level division persisted, as unions were segregated on political and ideological grounds into rival bodies.

Thus, no attempt was made to develop a strategy for the tyre sector as part of an overall policy for the entire motor and components industry. The result was that the unions failed to fully comprehend what factors were responsible for the run-down of the British tyre sector, and they were therefore misled into supporting policies that ran counter to their members' interests.

Secondly, the SWP was an inappropriate vehicle for developing a sector strategy. The tyre companies were implementing a planned rationalisation and closure programme, and were not prepared to discuss their plans with the unions through the SWP. As a result the Committee became almost exclusively concerned with "communications" and "participation". There was, therefore, very little direct input from government, because the major issues and concerns facing the industry were dealt with through the BRMA, or directly with the respective company, so that the SWP operated more or less as a bi-partite as opposed to a tri-partite body.

A key policy advocated by the trade unions to protect the domestic industry was a restriction on all tyre imports into the UK, and not just those from Eastern Europe. But there was never any prospect of this policy being adopted by the Government or the SWP. Paradoxically, the possibility of developing other alternative policies were hampered by the lack of any clear reporting lines between the union representatives on the SWP and the shopfloor. Thus, the combination of role confusion with the emphasis on consensus, militated against the trade unions putting forward anything that might have been deemed contentious. In these circumstances, the only strategy that the unions could have

conceivably supported was that laid down in "efficiency dialogues".

However, if we analyse the actual strategy adopted by the SWP, it is clear that in a stagnant market it was not possible to increase productivity and at the same time guarantee job security. If the British and European markets had been growing at rates comparable to that in the 1960s, this could have been contemplated. But this was not the case. Moreover, there was no evidence to suggest that the British tyre sector could have been revived through lower unit costs accompanied by dynamic marketing. Indeed it is unlikely that a sufficient cost advantage, aided or otherwise by the vagaries of the exchange rate, could have been sustained long enough to boost home output to a level where it could have guaranteed job security. Furthermore, there is little reason to believe that the tyre companies would have been prepared to make greater use of capacity in the UK, at the expense of that in Europe, particularly when one takes into account the higher proportion of obsolescent plant in the UK compared to the continent. All of the tyre companies in Britain, with the exception of Michelin, were still producing crossply tyres and fabric radials. These companies did not have sufficient steel radial capacity in Britain to both source the domestic market and to substantially increase sales to Europe.

Additionally, the solution to the industry's problems did not rest with isolated improvements in operations at plant level. The rubber companies had established an integrated production and marketing system in Europe, and each plant was part of that network. They were not autonomous entities. Decisions to increase production or investment in one plant as opposed to another were not the prerogatives of plant

management. These were made by senior management who based their decisions on a host of factors including: growth and size of market; level of investment required; profitability; costs and exchange rates. Within the context of corporate planning, "efficiency dialogues" were irrelevant. The tyre companies had been planning since 1974 to close down factories and cut-back on capacity, which would inevitably lead to thousands of job losses. It was not surprising, therefore, that David Warburton, when interviewed in March 1984, said ruefully that "efficiency dialogues" was nothing but a means of "raising productivity on the cheap".

In short, tripartism paved the way for redundancies after the abolition of national bargaining, and the failure of the unions was manifest in their acceptance of this policy and their inability to recognise the full implications of its implementation.

Thirdly, the unions were either under-resourced or their resources were not well-managed. No effective research facilities and support services existed for full-time officials which could have assisted them to understand management policies, or to develop an alternative strategy for the tyre sector. The research facilities that were available were mainly orientated towards servicing the immediate needs of the membership, i.e. wages and conditions.

Fourthly, the trade union movement is not radical. Unions see their role to pursue their sectional interests through industrial methods, as opposed to using strikes and industrial action to achieve common political objectives. Thus since the Labour Movement was not

prepared to directly confront the power of investors, there was little prospect of the rubber unions being able to persuade Dunlop to reverse its closure policy through conventional industrial and political methods.

Fifthly, the trade unions are uneducated in business, and generally are unable to monitor and analyse company strategy. This was apparent among both shop stewards and lay officials in the rubber industry. An abundance of information was regularly published on the motor and rubber industries, which was acquired and analysed by economists and business analysts working for the tyre companies, and used to keep management fully informed of developments within the industry. The same information was available to NEDO and the trade unions. However, as no attempt was made by the unions to make use of this information, it was not surprising that they were unaware that management were planning to close down factories, or that they were unable to develop their own strategies to counter management's.

CHAPTER 7 - SUMMARY AND CONCLUSIONS

In his review of trade union responses to closures, Moore (1984) identifies "established patterns of trade union organisation and strategy.....as a major source of constraints" (p.209) upon union effectiveness in fighting closures. As he says, the constraints are "many and varied", ranging from the "coherence of policy objectives to the quality of the organisation and its use of resources" (p.210).

As we described in chapter 2, the evolution of the trade unions along craft, occupational and industrial lines has clearly served to promote sectional interests at the expense of broader collective interests. The unions have unquestioningly embraced collective bargaining as the main method for achieving their objectives, which has endorsed their sectional interests, while also acting as an institutional means of controlling their industrial militancy. In short, the trade unions are orientated towards furthering the sectional interests of their members within the framework of capitalism, rather than the interests of the working class through its abolition.

These structural and organisational constraints are mirrored in the narrow objectives and strategies of trade unionism, so that they pursue goals which are acceptable to the employers. Further, the unions have accepted limitations on their use of industrial methods - as well as the separation of industrial from political purposes - which has effectively restricted their ability to achieve their political objectives. The consequence of this, as Moore concluded, is that:

> ".....there has been no direct, coherent political dimension of trade unionism in Britain" (p.211).

The pursuit of sectional economistic interests has reduced the class nature of the conflict, and by so doing has inhibited the unions from translating their industrial objectives into general political demands. Further, the unions have been content to leave political matters to the Labour Party. However, the dilemma for the Labour Movement is that the ability of the unions and the Labour Party to engage in industrial or political action to achieve their objectives is limited by the capitalist system itself and its values. The Labour Movement appears to have gained marginal improvements for workers within capitalism, but they have not been able to transform the system.

This was clearly demonstrated during the closure of Speke. Once the closure had been announced the unions realised that industrial action alone would not persuade the company to reverse its decision. Only political pressure could do that, but by this stage it was too late. The Government was not prepared to intervene directly to thwart investors' strategies, as industrial output had already been cut back, and plant closures were occurring, or had taken place, across manufacturing industry. It was evidently not possible for the Government or the unions to move decisively in the opposite direction to that required by investors.

Thus, the central failure of the Labour Movement appears to be its unwillingness and inability to put forward coherent alternative industrial strategies and a supporting political programme to challenge

the everyday workings of capitalism. Without these, workers have had little choice but to accept closures as inevitable, or even as rational. As Moore (1984) put it:

> ".....(I)n closure fights workers appear to be forced to realise it may be the workings of capitalism itself, through the decisions of employers, governments and international agencies, which are making them redundant. But instead of inspiring and assisting them to seek alternatives, the conventional trade union role appears to be to pull them back to look for a compromise, or even to countenance a sell-out. If the picture sometimes appears to be the reverse, with members clamouring for redundancy payments rather than job retention against the advice of their trade union officials, it may amount to no more than reaping what has already been sown" (p.212).

To overcome these constraints, Moore suggests that:

> "If trade unions want to fight closures more effectively and thereby resist their own membership loss, they need to move on from labourism. This means a re[e]valuation of trade union aims, of their methods and levels of pursuing these, and of the kind of education and servicing in political economy which their members deserve and which their circumstances require" (p.214).

In other words, Moore has himself now come to recognise the need for "strategic trade unionism": the establishment of strategic objectives and the development of appropriate union organisation and machinery to achieve these goals. As a first step, as Moore and others have pointed out, the unions would need to organise at every level of the enterprise and the economic system to pursue their objectives.

Thus, the unions at Dunlop could presumably have enhanced their ability to resist plant closures by organising strategically across the entire motor and componènts industry - this appears not to have occurred to shop stewards or union officials, who treated plants in the rubber

industry as distinct entities in a distinct industry. However, it is obvious that the demand for tyres for original equipment is ultimately determined by the number of cars produced in Britain, and that the domestic output of vehicles is controlled by the production and sourcing arrangements of the motor manufacturers. Yet the unions in the rubber and vehicle industries apparently failed to recognise their common interests.

Instead, the only preoccupation of the general unions in the rubber industry was the low level of pay of their members. Ironically, however, the failure by the unions to adopt a strategic approach towards pay allowed them to be out-manoeuvred by management on strategic issues, which culminated in the withdrawal of the unions from national negotiations for the rubber industry (and company level at Dunlop). This effectively left individual plants isolated and vulnerable and appeared to make it much easier for management to close them.

Further, the unions at Dunlop found that they were unable to raise issues with management beyond the immediate plant or division, as no trade union platform existed which could discuss strategic matters with senior management. Thus the unions were effectively excluded from any discussions on the company's future plans, and were merely informed - usually through the press - once they had been announced.

The only formal contact that the unions had with senior management was through the Tyre Sector Working Party. However, it was not part of the remit of the SWP to discuss issues that were specific to individual companies. Indeed, the Committee was neither part of the bargaining

arena, nor was it a strategic planning body. Instead it largely served the interests of the employers by concentrating on merely conveying the message to Labour that the British tyre sector was suffering from "low productivity" and "inadequate communications".

If the trade unions had been organised on the basis of strategic unionism, there would have been little reason for them to attend the SWP. For then it would have been obvious to both management and unions that there were irreconcilable conflicts of interests. The onus would then have been clearly on the trade unions to extend their range of research and specialist skills, specifically in the areas of financial analysis and management techniques, to enable them to monitor and understand management's plans.

However, a survey by the Trade Union Research Unit, at Ruskin College, Oxford (1978), into the structure of union research departments clearly revealed their limitations. They found that the large multi-industry unions employed an average of 5.6 research workers covering a wide-range of subject matters, but tended to concentrate their resources on wages, cost of living, employment legislation and government legislation. Although the majority of respondents saw "the formulation of alternative policy as an important development in the role of research departments" (p.10), there was little evidence to suggest that they recognised the need to take on the role of "shadow-planning" (Bryer et al, 1984b), or what was earlier termed "parallel management" (Lane, 1981).

It seems impossible to avoid the conclusion that unless the unions are prepared to monitor what is happening in various sectors of the economy, they will remain oblivious to the strategies being pursued by management. Further, they will be unable to develop their own plans and strategies.

At Dunlop, it was evident that although many trade unionists were aware that the tyre sector was experiencing "problems", few had any precise information. Not many rubberworkers were expecting plant closures. However, we have seen that by the beginning of the 1970s it was clear to investors that the British tyre sector was suffering from a competitive disadvantage vis-a-vis her European competitors, owing to the lack of investment in modern automated plant and an over-dependency on outmoded crossply production. Dunlop in particular was in a very vulnerable position, having invested in fabric radial production equipment, in what was to prove an intermediate technology stage to the steel radial. These problems were further compounded by the oil crisis in 1973-4 as the steel radial was making its impact felt on the market. The decline in vehicle production and the greater mileage offered by the steel radial contributed to massive over-capacity in the European tyre industry. Britain's problems were further aggravated by the strategy of the vehicle and tyre manufacturers to integrate their European manufacturing facilities, leading to a large increase in captive imports of both cars and tyres. Inevitably, the tyre manufacturers sought to reduce their capacity by closing down plants, and since the UK had a large preponderance of obsolete production facilities, its plants were amongst the first to close, resulting in Britain suffering a far greater loss of productive capacity and jobs than her European competitors.

By 1972, investors were very concerned about the performance of the tyre sector, as evidenced by the large slide in the share price of Dunlop, the leading British rubber company. The following year a study by Cutler and Westwick (1973) revealed that the earnings of the motor industry group, in particular Dunlop and British Leyland, would be amongst the worst affected by any rise in inflation. The oil crisis at the end of the year was to realise that fear. In 1977, Dunlop produced its first set of full current cost accounts, which we saw confirmed that the divestment of tyre operations was in the best interests of investors.

Although the unions were aware that Dunlop was experiencing "difficulties", it was not until 1978 at the start of pay negotiations, that they were officially informed by management that the company had "problems". A year later Dunlop formally announced the closure of its tyre factory at Speke, followed by the shut-down of other production facilities, as it set about reducing its manufacturing capacity in the UK. This turn of events took the unions completely by surprise, though previously published financial information clearly revealed that this was part of management's strategy, and could have been anticipated by the trade unions.

The failure of the unions to monitor management strategy was again underlined in 1983, when Dunlop announced that it was selling its European tyre operations to Sumitomo of Japan. This also came as a "shock" to the unions, though a careful analysis of company policy would have revealed this as a likely outcome.

Much of the evidence from the Dunlop experience is consistent with the conclusion that the failure of the trade unions to monitor and scrutinise the tyre sector prevented them from developing a coherent policy and strategy. One contributory factor was that the GMBATU's research department lacked the resources and, for the most part, the expertise to monitor policy decisions by the manufacturers. Most of its resources were devoted to issues relating to wages and conditions. The union's research department published a yearly review of wages and conditions in the rubber industry, accompanied by an analysis of developments occurring within the industry. However, it did not monitor the rubber companies or the industry on a regular basis. Instead, information was collected and analysed on a yearly basis to service delegates at the annual Industrial Conference for the Rubber Industry, and to assist them to formulate policy and to draw up their wage claim.

Inevitably these policy documents only presented a brief review of the state of the industry, and the financial and economic analysis tended to take a short-term rather than long-term assessment of the prospects for the tyre sector. Not surprisingly the research department did not anticipate or forewarn delegates to expect plant closures. Delegates were merely warned at the 1977 Conference that "investment rates ha(d) more than halved between 1965 and 1975", and that there was a need to "restore and step-up investment levels, so as to safeguard employment in the industry" (p.7).

The absence of a grasp of management's strategy appeared to also allow management to undermine union organisation at Dunlop, by manoeuvring them into withdrawing from the company-wide bargaining

arrangements. This effectively left each plant isolated and hence vulnerable.

It may be argued that the trade unions were unable to develop the necessary strategies and policies to combat plant closures because job losses on this scale were beyond their experiences. The unions had come to accept the maintenance of full employment as an integral part of the economic policies of both Labour and Conservative Governments over the postwar period. Thus, when confronted with plant closures, the unions were unable to offer a critique or to pose "viable" alternatives to what, on the face of it, appeared to be "rational" decisions by management to close-down old, obsolete and unprofitable factories.

What lessons have the trade unions learnt from the factory closures of the late 1970s and early 1980s? The evidence would suggest that little progress has been made in the direction of "strategic trade unionism".

The prospects of the unions encouraging the establishment of "shadow" planning teams at all levels of the enterprise are not good. Perhaps one reason is that the unions still view corporate planning as the prerogative of management, and see little prospect of extending collective bargaining into this area in the foreseeable future. A further reason is that the re-election of the Conservative Government in 1983, confronted the unions with a political and industrial environment which was hostile to trade unionism. The mainstay of the union movement, the manufacturing workforce, had been reduced to 5 million people, and the adoption and use of new technology had become widespread. Meanwhile, the employers have tried to capitalise on this more "favourable" environment to re-assert their prerogatives, and many have taken a determined stand in attempting to de-unionise the workplace. On top of this, the Government has used legal measures to curtail the industrial objectives of the unions and, furthermore, it has challenged the democratic nature of decison-making within unions and questioned how far they represent the views of their members.

In response to this hostile industrial and political environment the unions, rather than confront it, have retreated and some have begun to re-evaluate their economic, political and social objectives. From this has emerged two distinct strategies. The first has been dubbed "new realism", and is being pursued mainly by the craft unions - the EETPU and the AEU. The second strategy is a response to the former by the other major trade unions.

New realism has also become known as "market unionism". John Lloyd described it as a shift from "class based to market based unionism" (Financial Times, 31 January 1986, p.27). Here the membership are

recognised as "consumers not merely producers", and the employers are no longer regarded as the "enemy". On the contrary:

> "The common interest of both workers and management is recognised as growth, profits, and increased market share" (Ibid).

From this has evolved what has been termed "employer-based" collective bargaining, where the emphasis is placed on strike-free or single-union deals. In return for recognition, the union is prepared to deliver a "responsible" workforce.

A final feature of "new realism" is the stress placed on individual ballot-based democracy, in which members are given a private choice to cast their vote, free from the "coercion" of the mass meeting. Critics would contend that the intention is to discourage the involvement of the activist and to undermine representative democracy.

It is clear that the proponents of "new realism" reject the socialist and radical objectives of the Labour Movement - they advocate coming to terms with capitalism not challenging it. Indeed it would appear that their primary aim is to satisfy the immediate pecuniary interests of their members.

The apparently competing strategy propagated by the other major unions, notably, John Edmonds, General Secretary of the GMBATU (Financial Times, 22 March and 3 June 1986), and Tom Sawyer, Deputy General Secretary of NUPE (Guardian, 29 January 1987), is critical of "market unionism" because they believe that it is applicable to only a small part of the workforce - essentially those with an already high

level of pay and security.

A key policy of the general unions is to reject the narrow individualism of "new realism", and to instead recognise the needs and interests of the wider community especially on broader social issues - equal opportunities, health and safety, maternity rights, unfair dismissal, and legal advice. Further, the general unions have tried to extend union membership and protection to part-time workers - mainly women and workers in low paid and service industries.

Nevertheless, these unions have also adopted many of the "acceptable" features of "market unionism". For example, they have extended their services to cater for the needs of their members as holiday-makers, as parents, and as motorists. Like the "new realists" they have tried to become more service and consumer orientated, though they would argue that this has not been at the expense of their socialist objectives.

Thus, on the basis of either of these two strands of "modern" trade unionism, it is difficult to envisage the union movement adopting a common programme to challenge the power of investors by the systematic use of financial information.

APPENDICES

Appendix 1 A Statistical Analysis of the British Tyre Sector

This appendix examines the decline of the British tyre sector over the postwar period. In 1960, the UK was the largest tyre producer in Europe and the third largest in the world behind the United States and Japan. However, by 1980, the UK had also been surpassed by France, Italy and West Germany.

This was brought about by the failure of the rubber companies to invest in modern automated plant and machinery in their British tyre factories. Thus leaving the UK heavily dependent on crossply production, at a time when the European market was switching to steel radial tyres. Further, the reduction in domestic vehicle production also contributed to a substantial decline in original equipment demand.

The result was that more capacity was shut down in the UK than in any other European country. Moreover, between 1973 and 1981, employment in the rubber industry fell from 135,000 to 96,000, with 16,000 of these job losses occurring after 1979 (RPPITB, 1982). More importantly, half of all the jobs lost were in the tyre sector (Ibid).

Early History

The foundations of the modern rubber industry were laid during the early part of the nineteenth century, due largely to the pioneering work of Thomas Hancock in Britain and Charles Goodyear in the United States. In 1820, Hancock started to develop machinery and processes specifically for application to rubber. The industry received its second fillip in

1839 through Goodyear's discovery of vulcanisation, which enabled rubber to be moulded for widescale industrial and commercial uses.

In 1845, Robert Thomson, a Scotsman, invented the pneumatic tyre, but it was never commercially exploited and, after his death in 1873, it was largely forgotten. More than forty years later, in 1888, the pneumatic tyre was "reinvented" by John Boyd Dunlop, another Scotsman. The following year the Dunlop Rubber Company Limited was established to manufacture the new tyre for use on bicycles. Two years later the Thomson patent was discovered which invalidated Dunlop's patent, leaving the market wide open for a number of new companies to enter and exploit.

The early technological lead established by Britain and the United States allowed them to dominate world trade in rubber goods. In 1850, UK net imports of rubber stood at 209 tons, by 1900 consumption had increased beyond 10,000 tons and had doubled again by 1910. By comparison, it is estimated that the United States was already consuming rubber at the rate of 1,000 tons a year during the middle of the nineteenth century. In 1900, this figure had increased to 20,000 tons and by 1910 had similarly doubled (Wallace, 1952, pp.333-4). Measured in terms of tons of rubber consumed, the American rubber industry was now twice the size of the British industry. By 1920, American consumption of rubber had increased to 206,000 tons, more than eight times the amount used by the British rubber industry. This phenomenal growth in the size of the American industry was bought about by the development of the motor industry, and the concomitant demand for rubber tyres. As a result, in 1922, the United States accounted for about three-quarters of the world consumption of rubber (Ibid, p.332).

The United States has continued to maintain her lead as the world's main consumer of rubber (that is natural and synthetic rubber combined). In 1965, the United States accounted for 39% of world rubber consumption, whilst Britain, now the third major consumer behind Japan, consumed just under 7% of the total (calculated from Smit, 1982, p.183, table 6.1). In 1980, the United States was still the major consumer with nearly 2.6 million tonnes or 20.7% of total consumption, Japan was in second place with just over 1.3 million tonnes or 10.6% of total consumption, but Britain had now fallen to fifth place in the table of major western rubber consumers, with 379,000 tonnes or 3.1% of the world's total consumption (Ibid).

Performance of the British Rubber Industry

The British rubber industry produces a wide range of industrial components and consumer goods, details of the main processing activities can be seen in table 1. In 1981, the gross output of the industry (as defined by MLH 481) amounted to nearly £2 billion which was about 1.2% of total manufacturing output. The rubber industry cannot, however, be considered homogeneous, but it can broadly speaking be classified into two distinct sectors: tyre manufacturing and general rubber goods (GRG). The former is the single largest product group acounting for in 1981, 29.7% of the industry's sales and nearly 29% of total employment. The GRG covers a diverse range of industrial and consumer products including: conveyor belting; hose; motor components; footwear and medical products. The main customer is also the motor and transportation industries which take roughly 40% of total output (NEDC, 1970, p.3). In total, about 70% of all rubber consumption is absorbed

by the motor industry (Ibid, p.14).

Table 1 Main Processing Activities in the Rubber Industry in 1981

Main Processing Activity	Number of Establishments	Number of Employees	Employees as % of total
Moulding GRG	111	16,055	16.7
Extrusion - Belting & Hose	20	3,589	3.7
Tyre Distribution	633	16,435	17.1
Tyre Manufacturing	16	27,699	28.8
Tyre Repair and Remoulding	32	1,826	1.9
Tank Lining	4	525	0.5
Latex Dipping	11	2,757	2.9
Proofing and Spreading	6	811	0.8
Footwear	9	2,623	2.7
Foam	12	1,260	1.3
Adhesives	21	3,196	3.3
Other (Rubber)	139	19,372	20.1
TOTAL	1,014	96,148	100.0

Source: RPPITB, 1982, p.31

To the extent that the products of the rubber industry are components for other manufacturers' end products, in particular the motor industry, means that the financial performance of the rubber companies depends upon their success in selling to the end-user. In this respect the decline of Britain's motor industry has had a direct bearing on the investment, production and employment policies of the rubber manufacturers.

World Tyre Production

Table 2 denotes the share of the European, United States and World markets taken by the rubber companies. Tyre production worldwide is controlled by about ten large multinationals, with Goodyear and Michelin the two major manufacturers. The former dominates the North American market with a 32% share of original equipment sales and 14.5% share of replacement sales, whilst the latter is the largest manufacturer in Europe with a 37% share of total sales (OE and replacement combined).

Table 3 shows the turnover of the ten largest rubber companies in 1982, ranked in order of sales. All of the tyre producers experienced a decline in sales as a consequence of the recession and the contraction in the rubber industry. Even Michelin, the pioneer of the radial tyre, suffered a 10.6% decline in sales in 1982.

In addition to industry concentration, production is also geographically concentrated in the hands of a small number of countries. Although sixty countries now produce tyres, seven countries in 1980, accounted for 69% of total car and truck tyre production. These same seven countries also produced over 80% of the total world production of cars and commercial vehicles (calculated from SMMT data). This dual concentration is not surprising since tyre plants have traditionally been situated close to vehicle production facilities to meet original equipment requirements.

Table 2 Major Producers Share of Europe, United States and World Markets (Sales-Volume %)

Europe[1] (1979-80)		United States (1982)			World (1982)	
		OE[2]	Replacement[3]		Car[5]	Truck[6]
Michelin	37	Goodyear	32	14.5[4]	Goodyear	20	22
Dunlop	12	Uniroyal	24.6	4	Michelin	16	11
Pirelli	9	Firestone	21.5	9	Firestone	9.5	9
Continental	11.5	General Tire	13.5	-	Bridgestone	9	7
Goodyear	10	Michelin	8	8	Uniroyal	7.5	-
Firestone	6.5	Goodrich	-	5	Dunlop	-	6
Kleber	3.5						
Semperit	3.5						
CEAT	1.5						
Bridgestone	0.5						
Others	3						

1 Total car and truck markets (OE and replacement combined).
2 OE car and truck combined.
3 Replacement car and truck combined.
4 Includes the 3% share held by the Goodyear subsidiary, Kelly-Springfield.
5 Car - total OE and replacement.
6 Truck - total OE and replacement
- n.a.

Sources: Europe, Charles Zub Associates, 1981, p.59.
United States and World, Financial Times, 2 March 1983.

Table 3 Turnover of Major Rubber Manufacturers, 1982

	Sales ($m)	% change 1981-82
Goodyear	8,689	- 5.1
Michelin	5,567	-10.6
Pirelli	4,210	- 5.4
Firestone	3,869	-11.3
B.F. Goodrich	3,005	- 5.6
Bridgestone	2,860	-13.2
Dunlop Holdings	2,668	- 9.6
General	2,062	-18.3
Uniroyal	1,967	-13.0
Continental	1,338	- 6.7

Source: Financial Times, 20 September 1983, p.18.

Tables 4a and b and 5a and b present disaggregated car and truck tyre output statistics for the major producer countries, from 1960-82. The static nature of output in these countries confirms the impact of the two oil crises, recession and increased radialisation. Nevertheless, the United States still remained the world's largest producer of car tyres, though its share had been more than halved since 1960, when it produced nearly 60% of world output. In the truck tyre sector, the United States has been displaced by Japan, which trebled its share of world production in two decades. The UK by contrast has continued to loose ground in both segments, and is now ranked as the seventh largest tyre producer in the world (the Soviet Union is larger), and the fourth largest in Western Europe.

Table 4a Car Tyre Production in Major Countries, 1960-82 (millions)

	1960	1965	1970	1973	1975	1979	1980	1981	1982
Canada	7.60	12.05	17.72	16.57	13.58	18.85	18.14	18.68	20.09
France	13.65	20.12	34.95	41.33	34.43	44.10	44.23	38.10	36.67
W Germany	12.85	23.16	33.93	37.81	28.38	34.35	33.80	31.66	32.84
Italy	5.70	13.31	19.99	21.89	18.68	23.65	23.83	21.92	19.95
Japan	2.11	8.58	32.42	46.26	45.89	61.81	65.10	62.59	63.68
U.K.	12.85	19.94	26.64	26.57	22.22	23.61	22.90	20.83	21.96
USA	105.34	147.35	164.72	189.16	158.09	168.03	130.86	149.79	149.48
Others	15.70	29.19	50.23	89.61	105.83	115.60	121.14	n.a.	n.a.
World	175.80	273.70	380.60	469.20	427.10	490.0	460.0	n.a.	n.a.

Sources: International Rubber Study Group, 1980, p.56, table 6.
Smit, 1982, p.161.
Rubber Statistical Bulletin, February 1984.

Table 4b Share of World Car Tyre Production held by Major Countries, 1960-80 (%)

	1960	1965	1970	1973	1975	1979	1980
Canada	4.3	4.4	4.7	3.5	3.2	3.8	3.9
France	7.8	7.4	9.2	8.8	8.1	9.0	9.6
W Germany	7.3	8.5	8.9	8.1	6.6	7.0	7.3
Italy	3.2	4.9	5.3	4.7	4.4	4.8	5.2
Japan	1.2	3.1	8.5	9.9	10.7	12.6	14.2
U.K.	7.3	7.3	7.0	5.7	5.2	4.8	5.0
USA	59.9	53.8	43.3	40.3	37.0	34.3	28.4
Others	8.9	10.7	13.2	19.1	24.8	23.6	26.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 4a

Table 5a Commercial Vehicle Tyre Production in Major Countries, 1960-82 (millions)

	1960	1965	1970	1973	1975	1979	1980	1981	1982
Canada	0.85	1.49	2.09	2.86	2.53	3.36	3.33	2.90	2.87
France	2.87	3.25	4.47	4.41	4.94	6.37	6.18	5.36	4.05
W Germany	1.90	2.40	3.62	3.53	3.47	4.24	4.22	3.98	3.56
Italy	1.20	1.97	2.36	2.44	2.89	2.89	2.79	2.57	2.34
Japan	3.45	11.95	22.18	28.47	25.78	38.87	45.70	44.19	41.79
U.K.	3.05	3.45	4.08	3.72	3.79	3.28	3.45	2.90	2.42
USA	14.48	20.48	25.68	34.26	28.61	38.66	28.40	31.97	29.02
Others	5.40	28.81	42.02	50.81	50.69	74.33	73.93	n.a.	n.a.
World	33.20	73.80	106.50	130.50	122.70	172.00	168.00	n.a.	n.a.

Sources: International Rubber Study Group, 1980, p.56, table 6.
Smit, 1982, p.161.
Rubber Statistical Bulletin, February 1984.

Table 5b Share of World Commercial Vehicle Tyre Production held by Major Countries, 1960-80 (%)

	1960	1965	1970	1973	1975	1979	1980
Canada	2.6	2.0	2.0	2.2	2.1	2.0	2.0
France	8.6	4.4	4.2	3.4	4.0	3.7	3.7
W Germany	5.7	3.3	3.4	2.7	2.8	2.5	2.5
Italy	3.6	2.7	2.2	1.9	2.4	1.7	1.7
Japan	10.4	16.2	20.8	21.8	21.0	22.6	27.2
U.K.	9.2	4.7	3.8	2.9	3.1	1.9	2.1
USA	43.6	27.8	24.1	26.3	23.3	22.5	16.9
Others	16.3	39.0	39.5	38.9	41.3	43.2	44.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 5a.

Overcapacity

During the 1960s, tyre demand in Europe and the United States was growing at an annual rate of 9% and 10% respectively (Harkleroad, 1980c, p.8), encouraged by the postwar boom in the vehicles market which continued into the early 1970s. In response, the tyre manufacturers in Europe laid down enough capacity in the late 1960s to accommodate this increasing level of demand. Unfortunately, their calculations were upset, firstly, by the oil crisis of 1973-74, which led to a slump in car production, and thus a reduction in original equipment tyre sales and; secondly, by the spread of the longer lasting radial tyre, which caused a dramatic shrinkage in the size of the replacement market. As a consequence, by the end of the 1970s, excess capacity in the European tyre sector was estimated to be in the order of 20% (Financial Times, 21 December 1982).

Table 6 Percentage Capacity Utilisation in European Tyre Plants, 1975

	Car tyres	Truck tyres
Belg/Lux	81.3	80.0
France	79.1	82.5
West Germany	63.6	72.7
Ireland	75.0	80.0
Italy	80.0	93.3
Netherlands	64.0	87.5
UK	73.7	82.2

Source: SRI, 1980, p.34, table 21.

Table 6 confirms that the full effects of overcapacity began to be felt in 1975, and the initial response from the rubber companies was a price war that continued for the next two years (Norbye, 1982, p.185).

This, however, only delayed the inevitable rationalisation programmes which were to follow. At first, a number of small operations were shut down in Europe. In 1975, Trelleborg stopped producing car and truck tyres in Sweden; at the beginning of 1977, BF Goodrich closed its plant at Koblenz, West Germany; and the following year, Firestone closed its factory in Pratteln, Switzerland.

In Spring 1979, the major phase of rationalisation and plant closures began. Uniroyal, America's number three tyre producer, withdrew from Europe and sold its entire European tyre operations to Germany's Continental Gummi-Werke for $55 million (Business Week, 27 October 1980, p.68). Two other American companies, BF Goodrich and General Tyre, also pulled out of Europe. By the end of 1980, Firestone had ceased operations in Britain, and Phoenix and Metzeler, West Germany's second and third largest tyre companies respectively, had withdrawn from the tyre market. Goodyear also shut its factory in Glasgow; Pirelli closed its plant at Carlisle; and Dunlop closed two plants at Speke in Liverpool and Inchinnan in Scotland and, in 1983, Dunlop sold its entire European tyre operations to Sumitomo of Japan. Details of these plant closures can be seen in table 7.

Between 1977 and 1981, European tyre productive capacity was reduced by 97,000 tyres per day, equivalent to 11% of total capacity (Financial Times, 21 December 1982). However, plant closures continued, so that by 1983, 19 factories had been closed, accounting for 20% of European tyre productive capacity (TAB, November/December 1983, p.25).

Table 7 Tyre Production Capacity Reductions in Europe 1977-81, 1,000 tyres a day

Ceat (Italy)	5
Dunlop (GB)	19
Firestone (GB, Sweden, Switzerland)	27.6
Goodrich (W Germany)	5
Goodyear (GB, Sweden)	13.4
Metzeler (W Germany)	11
Phoenix (W Germany)	10
Trelleborg (Sweden)	6
Total	97

Source: Financial Times, 21 December 1982, p.4.

Capacity in the UK

Table 8 shows that at the beginning of 1983 there were six rubber companies producing tyres in eleven factories in the UK. Six tyre plants had been closed, and Michelin had announced that its factory at Mallusk in Northern Ireland, was to shut at the end of 1983. In addition, three associated brand companies had also been closed: Bergougnan (Michelin), Dayton (Firestone) and Henley's (Avon).

Table 9 details the estimated tyre production capacity of the individual companies for the three years, 1964, 1969 and 1981. Between 1964 and 1969, tyre capacity in the UK grew by almost 45% from 105,000 units per day to 152,000 units daily. The largest expansion in capacity was made by Michelin (200%), Pirelli (100%) and Goodyear (61%). Dunlop, by contrast, increased its capacity by just 7.5%, leaving the company over-dependent on the output of crossply tyres. This ultimately

Table 8 UK Manufacturers of Motor Vehicle Tyres and Tubes[1], 1983

Company and UK tyre plants	Ultimate Parent	Main plant products	Associate tyre brands
Michelin Tyre PLC	Michelin, France		-
Stoke on Trent, Staffs		Truck, car, cycle tyres, retreads.	
Burnley, Lancs.		Truck tyres and wheels.	
Ballymena, Northern Ireland		Car tyres.	
Belfast[2] (Mallusk), Northern Ireland.		Car tyres.	
Dundee, Scotland.		Car tyres.	
Dunlop Ltd	Dunlop Holdings PLC, UK		India, John Bull, Remington
Washington, Co Durham.		Car radial tyres.	
Fort Dunlop, Birmingham.		Motor vehicle tyres.	
Goodyear Tyre & Rubber Co Ltd.	Goodyear, USA.		Kelly-Springfield, Lee
Wolverhampton, Staffs.		All tyres	
Pirelli Ltd	Pirelli SpA, Italy.		Courier
Burton on Trent, Staffs		Tyres & other rubber products.	
Uniroyal Engelbert Tyres Ltd	Continental Gummi-Werke, West Germany.		-
Edinburgh		Car radial tyres.	
Avon Rubber PLC	Avon Rubber PLC, UK.		-
Melksham, Wilts		Car, motorcycle and special tyres, other rubber products.	

1 members of BRMA.
2 to close at end of the year.

Source: Rubber Trends, No.99, September 1983, p.24, table 2.

Table 9 Estimated Tyre Production Capacity[1] in the UK by Individual Tyre Companies, 1964, 1969 and 1981 (daily units '000s)

	1964	1969	1981
Dunlop	53	57	48[2]
Michelin	10	30	40
Goodyear	18	29	39
Pirelli	3	6	13
Uniroyal/Continental	4	4	9
Firestone	12	18	-
Avon	5	8	11
Total	105	152	160

1 car and truck

2 excluding the closure of Inchinnan and John Bull (Leicester) which would reduced daily capacity by a further 3,800 tyres.

Sources: 1964 and 1969, Harkleroad, 1980b, p.18, Exhibit 7.
1981, Charles Zub Associates, 1981, pp.354-7 and my estimates.

contributed to the serious problems that Dunlop was to face over the following decade. Indeed, with the exception of Firestone, Dunlop reduced its tyre production capacity between 1977 and 1981, by a larger amount than any other company (see table 7).

Equally disturbing was the fact that Britain suffered a greater loss of tyre-making capacity through plant closures than any other country. Table 10 shows that between 1979 and 1980, tyre capacity in the UK was reduced by nearly 44,000 units per day (the two later plant closures raises the figure to over 50,000 tyres per day, or a quarter of productive output). West Germany, by comparison, reduced its capacity by 26,000 tyres per day, whilst Sweden cut capacity by 19,500 tyres per day. Put another way, plant closures in the UK accounted for over half the total reduction in European tyre production capacity during this period.

Table 10 Tyre Plant Closures in Europe by Country and Manufacturer

Country	Manufacturer	Location	Year	Daily Capacity
W Germany	B F Goodrich	Koblenz	1977	5,000
	Metzeler	Munich	1978-79)	11,000
		Bruberg	1978-79)	
	Phoenix	Hamburg	1977-78	10,000
UK	Firestone	Brentford	1980	7,400
	"	Wrexham	1980	6,000
	Goodyear	Glasgow	1979	5,400
	Dunlop	Speke	1979	15,000
Sweden	Firestone	Boras	1980	4,000
		Viskafor	1980	1,500
	Goodyear	Norkoping	1980	8,000
	Trelleborg	Trelleborg	1977-78	6,000
Switzerland	Firestone	Pratteln	1978	8,700
Italy	CEAT	Turin	1979	5,000

Source: Charles Zub Associates, 1981, p.362.

But why did Britain bear the brunt of these closures? The primary reason was that the tyre plants in the UK were older and, hence less profitable, than those in Europe. The British plants were also more heavily dependent on the now obsolete crossply tyre, and this capacity was considered surplus to requirements. According to SRI (1980):

> "Overcapacity in Europe is at a level roughly equivalent to the UK's entire production. If Britain were to cease making tyres, this would just take up the slack in the European tyre production system" (p.40).

On the basis of this estimate, analysts were probably expecting productive capacity in Western Europe to be cut by a further 160,000 tyres a day. Particularly since in 1981, British car tyre plants were operating at 77.5% of capacity, whilst in the commercial vehicle tyre sector, the respective figures were 92% in the LHS (light-heavy) segment and 66% in the HS (heavy) (TAB, September/October 1981, p.80).

In Europe, West German car tyre plants were operating at 82% of capacity, and for all tyres the estimate was 80% (Rubber Trends, No. 94, June 1982, p.28). The French tyre plants were similarly operating at 70-75% of capacity utilisation in 1982 (Rubber Trends, No. 98, June 1983, p.21).

The UK Tyre Sector

There are a number of different markets for tyres, ranging from cars, commercial vehicles, Earthmover, Land/Road, agricultural, motor cycle, aeroplane, and many more. The two major segments are car and commercial vehicles tyres, which together are responsible for 93-95% of total tyre production (calculated from Rubber Statistical Bulletin). On a volume basis, the market for car tyres is the largest segment, but commercial vehicle tyres are about four times the size and value, so that the two segments are of comparable size in terms of value.

Table 11 shows that the total production of car and commercial vehicle tyres increased over the postwar period to reach a peak of just over 28 million units in 1971. From 1960 up to 1971, car tyre production increased by 118% to meet the rapidly growing demand from the motor industry. Thereafter, the production of car tyres fell by 22.5% between then and 1983, while commercial vehicle tyres fell by 46%. The major decline in both segments were crossply tyres, which contracted steadily over the period. Consequently, between 1973 and 1983, radials increased their share of total car tyre production from 16.1% to 96.4%, and of truck tyres from 64.9% (in 1974) to 87%. The bulk of this production was steel radials, as the textile radial's share of total

Table 11 New Tyre production in the UK, 1960-83 ('000 units)

	Car/Van			Commercial Vehicles		
	Crossply	Radial	Total[1]	Crossply	Radial	Total[1]
1960			12,854			3,049
1965			19,940			3,452
1970			26,462			4,083
1971			28,039			4,162
1972			26,694			3,642
1973	10,093	16,472	26,565			3,722
1974	7,313	16,560	23,873	1,274	2,352	3,626
1975	5,919	16,298	22,217	1,155	2,635	3,790
1976	4,902	21,144	26,046	1,161	2,663	3,825
1977	4,190	21,055	25,246	1,045	2,620	3,665
1978	3,193	19,973	23,166	947	2,552	3,499
1979	2,824	20,785	23,609	694	2,591	3,289
1980	1,596	21,303	22,872	571	2,876	3,447
1981	1,510	19,320	20,829	456	2,439	2,895
1982	1,105	20,853	21,958	345	2,073	2,418
1983	773	20,954	21,727	292	1,957	2,249

1 may not add up to total due to rounding.

Source: Rubber Statistical Bulletin (various issues)

radial car tyre production declined from around 40% to about 13% (Rubber Trends, No. 99, September 1983, p.28). Eventually, both crossply and textile radial production will be phased out completely. In the truck tyre sector, however, steel radials will take much longer to fully penetrate the market because price considerations outweigh high performance demands.

Market Segments

The tyre sector can be divided into two distinct market segments: original equipment (OE) and replacement sales. The former accounts for about 25% of total sales by the British manufacturers (taking into consideration exports and sales to Government), and is characterised by

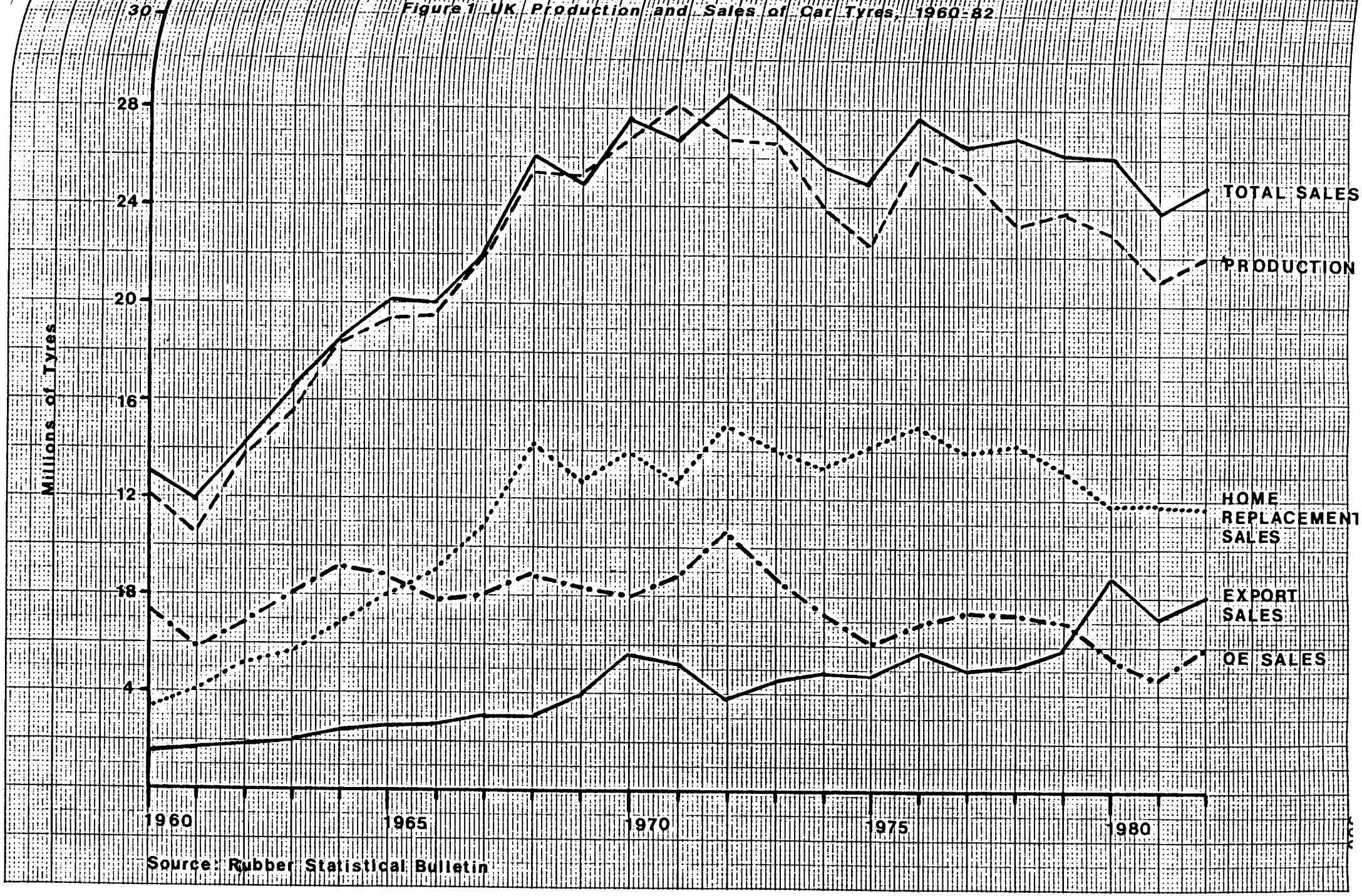
direct, large volume transactions between the tyre companies and the vehicle producers. The latter is roughly twice the size of the original equipment market and involves sales to vehicle owners to replace worn-out tyres. The market is served through a variety of channels, including sales through outlets controlled by the tyre manufacturers, independent dealers and garages.

One of the characteristics of the demand for tyres is that the replacement market is far larger than the OE market (Figure 1). This is always true except when the vehicle parc is growing extremely rapidly, as it was up to the mid-1960s. Figure 1 shows the production and sales of car tyres by the British-based tyre companies, all of whom are members of the British Rubber Manufacturers Association (BRMA). It is noteworthy that up to the beginning of the 1970s, sales usually just exceeded production. Thereafter, however, the tyre producers began to rely more heavily upon sourcing the British market from their plants in Europe. This was because their failure to invest in steel radial technology and, hence the over-reliance of the British plants on out-dated crossply production equipment, ensured that as the demand for steel radials expanded, there was insufficient capacity to meet it. Consequently, steel radials were imported from their European plants to satisfy consumer demands.

Original Equipment Demand

The industry demand for original equipment tyres is price inelastic, and is determined by the number of vehicles produced. As tyres constitute an extremely small cost in the overall price of a car,

Figure 1 UK Production and Sales of Car Tyres, 1960-82



Source: Rubber Statistical Bulletin

changes in OE tyre prices have virtually no effect upon car demand. Clearly, however, the demand facing the individual tyre company is more elastic; the car manufacturers are able to buy from the tyre company offering the lowest prices. Tyre prices are negotiated for each model range, but historically the vehicle manufacturers have been able to squeeze the lowest possible prices, so that prices for standard high volume tyres vary by less than 1% between suppliers (Fishwick, 1977, p.39), and profit margins are very low. As a consequence, OE tyre prices in Britain were reputed to be 20-30% lower than those prevailing in Europe (Rubber Trends, No. 99, September 1983, p.36).

The relationship between the tyre companies and the vehicle manufacturers is one of bilateral oligopoly. In such a situation, prices are determined by the relative bargaining strengths of the two parties, and in this particular case the market power clearly rests with the motor manufacturers, who have the option of buying from any of the tyre companies. Their negotiating power was further strengthened by the overcapacity in the tyre sector, which helped to force down prices, as well as by the decline in the British motor industry, which led to increased competition for fewer orders. In practice, however, the vehicle producers do not constantly switch from one supplier to another, instead close links have been established between individual companies, e.g. Leyland with Dunlop, Ford with the American tyre companies (Fishwick, 1977, p.ix). In fact, until the long strike at Dunlop in 1970, the company was virtually the sole supplier to Austin-Morris. Now all vehicle producers rely upon a system of multi-sourcing to overcome supply problems.

Table 12 gives an estimated breakdown of the OE tyre market between manufacturers in 1979. During the 1970s, Michelin's technical superiority in steel radial technology over the other tyre manufacturers enabled the company to increase its share of the OE

Table 12 Estimated Share of the UK Original Equipment Tyre Market, 1979 (% of volume sales)

Cars	Ford	BL	Vauxhall	Talbot
Michelin	30-32	30-32	28-30	30-34
Dunlop	20-22	32-36	15-20	20-25
Goodyear	15-18	14-16	15-20	20-25
Firestone	13-15	9-11	12-15	10-14
Uniroyal)		5-6	9-13	0-2
Pirelli)	15-20	-	7-11	8-10
Avon)		-	-	0- 2
Imports)		-	-	-

Commercial Vehicles	Ford	BL	Bedford	Dodge
Michelin	40-45	45-50	35-40	40-45
Dunlop	18-24	20-25	16-20	18-20
Goodyear	12-16	12-15	16-20	12-16
Firestone	8-10	6-8	10-24	8-12
Pirelli)	12-14	0-8	4-8	8-10
Uniroyal)		0-8	6-10	0-6
Avon	0-1	0-1	-	0-2

Note: Tyres are also fitted as OE to a number of other small passenger car and commercial vehicle company marques.

Source: Rubber Trends, No.86, June 1980, p.25, table 7

market at their expense. In 1979, Michelin was the market leader in the OE segment, ahead of Dunlop in second place, with the former particularly dominant in the commercial vehicle segment. But now that the technological gap has been closed, any further gains or losses in market share are unlikely to be solely due to technical considerations.

The nature of the sourcing system does, however, impose certain cost penalties on the tyre manufacturers. Tyre deliveries are made each day, but the motor companies hold no more than three days' production requirements. Instead, schedules are issued to the suppliers a few months ahead and are then subject to regular revision, so that there are no firm orders. As a result, the tyre manufacturers bear all the costs directly associated with interruptions to vehicle production, whether due to demand factors or supply problems (Fishwick, 1977, p.38).

This system compares very unfavourably (for the tyre companies) to that practiced by Toyota and its supplier Sumitomo. Here, the factories are next to each other and lorries loaded with tyres leave the plant every fifteen minutes, as Toyota keeps just five hour stock. Under this system an indication of supply requirements are given one month ahead, with actual orders placed on an hour-to-hour basis. Production is then geared up to meet demand. The benefit to Sumitomo is that it only needs to hold two days supply of raw materials, which has assisted the company to scale down its stock of finished tyres since 1975, from 428,000 to 140,000. Thus enabling Sumitomo to reduce its working capital by a third (British Business, October, 1981, p.27).

In spite of these low prices and small profit margins, the tyre companies nevertheless still consider it extremely important to secure OE contacts; firstly, because it guarantees a long production run and; secondly, because it creates demand in the more lucrative replacement market. This is based on the assumption that there is a link between OE fitment and brand loyalty in replacement sales. Though there is a great deal of debate about the extent of this relationship, particularly in

view of the increasing tyre life.

Replacement Market

The replacement market is the largest and most profitable segment of the tyre sector. In terms of volume, the replacement demand for car tyres is about 2½ times as great as that for original equipment sales. The key determinant of replacement demand is the number of vehicles in use ("the car parc"), but several other factors, some of which are intangible, also have a considerable impact. These include: vehicle use; tyre quality; accelerating and braking habits; and climatic conditions.

Table 13 shows that the car parc increased on average by approximately 3.3% per annum throughout the 1970s, compared to an annual average of 8.5% during the 1960s. The car parc has continued to grow, albeit at a slower rate, in spite of periods of recession and the slump in economic production caused by the two oil crises. This is because when necessity dictates, people will postpone the purchase of a new car and keep their old car in service for a longer period of time. The slow down in the growth of the vehicle parc is due to the increasing maturity of the UK market, in common with similar developments in other European countries and the United States. From 1960 to 1964, replacement car demand in the UK accounted for about 28% of total annual demand, but between 1970 and 1974, new demand became less important and replacement demand constituted two-thirds of total demand (Bhaskar, 1979, pp.105-6).

Table 13 Passenger Cars in use in the UK, 1970-82 ('000 units)

1970	11,082
1971	12,358
1972	13,023
1973	13,815
1974	13,948
1975	14,061
1976	14,373
1977	n/a
1978	14,417
1979	14,927
1980	15,438
1981	15,633
1982	16,075

Source: SMMT, 1983

Details of car density in Britain compared with the United States and various other European countries can be seen in table 14. Note that

Table 14 Car Density in the US, Japan and Selected European Countries, 1960-80

	Cars per 1000 population			Total stock (millions)
	1960	1970	1978	1980
Belgium	82	213	303	3.0
France	119	254	333	17.7
W Germany	84	220	357	21.6
Italy	40	190	303	17.0
Japan	5	85	185	21.3
Netherlands	45	200	286	4.0
Portugal	18	57	91	0.9
Spain	9	70	175	6.5
Sweden	160	285	345	2.9
UK	106	210	256	14.4
USA	344	434	526	117.1

Source: Jones, 1981, p.91, table 4.

maturity in Europe has been reached at a much lower level of car density than in the United States, mainly because of the greater population density, more extensive public transport provisions and the much higher cost of buying and maintaining a car (Jones, 1981, p.8). Given that a high proportion of the projected increase in demand during the 1980s is expected to occur in the countries of Southern Europe: Spain, Portugal and Greece, it is not surprising that the motor vehicle and tyre manufacturers have both established plant in these countries in recent years.

Although the car parc has continued to grow, it has not had the effect of stimulating replacement tyre sales. This is because a number of other factors have combined to retard any prospective growth. For

Table 15 Passenger Car and Van Mileage in Great Britain, 1970-82

	Annual average distance travelled by cars and vans[1] (thousand kilometres)	Total kilometres cars (billions)	Total kilometres vans (billions)
1970	n.a.	162.92	19.10
1971	n.a.	175.62	19.93
1972	14.6	186.07	20.64
1973	14.5	196.49	21.59
1974	13.9	190.83	21.35
1975	14.0	196.40	21.20
1976	14.2[2]	202.49	21.64[2]
1977	14.4[2]	205.19	21.63[2]
1978	15.0	215.22	21.89[2]
1979	14.8	215.86	21.74[2]
1980	14.9	224.42	22.11
1981	14.4	222.69	22.13
1982	15.2	239.82	23.65

1 vans taxed for private use only.
2 revised.

Sources: 1970-71, Transport Statistics Great Britain, 1970-80, p.38, table 2.1
1972-82, " " " " , 1972-82, p.42, table 2.1

example, higher petrol prices have helped to reduce average annual mileage (see table 15), thereby reducing the wear and tear on tyres. Even before the first oil shock, average annual mileage had remained static, which is partly a reflection of the lower average distances travelled by households where there are two or more vehicles. Table 16 shows that between 1970 and 1982, the number of two car households doubled from 8% to 16%.

Table 16 Availability of Cars to Households in Great Britain, 1970-82 (%)

	No car	One or more cars	One car only	Two or more	Households in GB (million)
1970	48	52	44	8	18.2
1971	48	52	44	8	18.4
1972	47	53	44	9	18.6
1973	46	54	45	9	18.8
1974	45	55	45	10	19.0
1975	44	56	46	10	19.1
1976	44	56	45	11	19.3
1977	43	57	46	11	19.6
1978	43	57	45	12	19.7
1979	42	58	44	13	19.7
1980	41	59	44	15	19.9
1981	39	61	45	15	20.1
1982	39	61	45	16	20.3

Source: Transport Statistics Great Britain, 1972-82, p.63, table 2.22

An additional, and indeed the most important influence on tyre wear, has been the radial tyre. Its impact on replacement sales has been determined by the pace at which radials have displaced crossply tyres in both OE and replacement segments of the market. At a result, by the late 1970s, the increasing level of radialisation had more than compensated for the recovery in annual vehicle mileage. Thus providing no stimulus to replacement demand.

Size of the Replacement Market

The replacement market is served by radial and crossply tyres, and to a lesser extent by remoulded tyres. Table 17 below shows the net replacement market for car tyres, excluding remoulds.

Table 17 UK Net Replacement New Car Tyre Sales[1], 1971-82 (000's)

	BRMA[2]	Competitive Imports[3]	Distributor Exports[4]	Net Replacement Market
1971	12,563	1,727	597	13,693
1972	14,944	2,019	838	16,125
1973	13,943	1,987	897	15,033
1974	13,069	2,136	599	14,606
1975	14,007	2,287	1,366	14,928
1976	14,933	2,836	1,955	15,814
1977	13,817	2,932	1,828	14,921
1978	14,212	3,536	2,432	15,316
1979	13,156	4,150	2,005	15,301
1980	11,651	3,491	1,440	13,702
1981	11,735	3,791	1,083	14,443
1982	11,618	4,100	1,152	14,566

1 Approximate only, stock movements and other unidentified factors not taken into account; excludes replacement tyre sales to the government.

2 Including sales to distributors which are subsequently exported.

3 Including some tyres imported to be fitted as OE, and also including parallel imports (i.e. BRMA brand tyres imported by independent distributors).

4 Including some tyres imported from abroad which are then exported.

Sources: BRMA data, Rubber Statistical Bulletin (various issues).
Competitive imports, 1971-75, Fishwick, 1977, p.24, table 11.9
Competitive imports, 1976-78, Rubber Trends, No.86, June 1980, p.26, table 14.
Competitive imports, 1979-83, my calculations based on data in Tyres & Accessories, April 1983, p.85.
Distributor exports, calculated from Rubber Statistical Bulletin (various issues) and Business Monitor, PQ491.

The net replacement market had been stagnating since the beginning of the 1970s. On the one hand, growth in replacement sales had been stimulated by the rising vehicle parc, while on the other, it had been retarded by the greater preference for radial tyres. Additionally, the two oil crises had an adverse impact on vehicle mileage, with the cost of crude oil increasing by 1,473% between 1971 and 1981 (Bryer et al, 1984a, p.21). Latterly oil prices have fallen in real terms owing to the oil glut, and average and total annual mileage are now increasing.

The net replacement market reached a peak of 16.1 million tyres in 1972, mainly because of the high level of BRMA sales, brought about by a large amount of forward-buying by dealers in anticipation of price increases (Tyres & Accessories, May 1976, p.41). Consequently the 1973 figures were artificially deflated. Around this time fabric belted radials became the main fitment for passenger vehicles, which coincided with a period of peak car sales. As a result, the net replacement market increased by nearly 6% in 1976 (based on the assumption that the replacement cycle for a fabric radial is 3½ years compared with 2½ years for a crossply tyre). However, after 1976 the net replacement market declined owing to the spread of the fabric radial, which increased from 50.3% of OE demand in 1972 to 86.6% in 1974, together with the slowdown in the growth of the vehicle parc after 1972, accompanied by a reduction in vehicle mileage. The one factor working in the opposite direction was that people were keeping their old cars for longer periods. This is indicated by the decline in new registrations share of the car parc in the mid-1970s. In 1972, new registrations share of the car parc reached a peak of 13.1% before falling to a trough of 8.6% in 1975, but by 1979 new registrations reached a new peak of 1.73 million cars or 11.6% of

the car parc (calculated from SMMT data).

In 1980, the net replacement market fell by 10.5% to 13.7 million tyres due to the switch away from fabric to steel radials in 1975 (based on the assumption that the life of a steel radial is 4½ to 5 years). Once the replacement market has been fully saturated with steel radials, demand will adjust to a lower level for the rest of the decade. Since 1975, steel radials have gradually displaced crossply and fabric radials, enabling the former to increase its share of the replacement market from 26% in 1975 to 78% in 1982, as shown in table 18.

Table 18 Breakdown of UK New Car Tyre Replacement Market[1], 1975 and 1978-82 (millions)

		Radial			
	Crossply	Textile	Steel	Total	Steel radials as % of total market
1975	4.7	5.4	3.6	13.7	26
1978	2.9	7.0	6.3	15.2	41
1979	2.1	5.6	7.5	15.2	49
1980	1.6	3.7	8.1	13.4	60
1981	1.1	3.1	8.9	13.1	68
1982	0.7	2.2	10.2	13.1	78

1 The source and hence the size of the replacement market are different from that used for table 5.1.

Source: Rubber Trends No. 99, September 1983, p.41, table 41.

Car Replacement Ratio

One measure of the impact of the radial tyre on the replacement market is the car replacement ratio. It is calculated by dividing the number of replacement tyres sold by the number of vehicles in use. Unfortunately, the compilation of government statistics does not allow us to calculate an exact measure, because vans may be classified as either passenger cars or commercial vehicles depending on their registered use. The tyre production statistics, on the other hand, combine car and van tyres under one heading. After making allowances for these statistical handicaps, it can be seen from table 19 that there was a trend decline in the replacement ratio, from 1.80 in 1972 to 1.12 in 1982. The growth in the size of the car parc proved insufficient to compensate for the increased sales of radial tyres. Unless tyre safety standards are made more rigid or present legislation is enforced more comprehensively, then the trend decline in the ratio will continue until it matches the levels prevailing on the continent (see tables 20 and 21).

The public, generally speaking, tend to be very lax and ambivalent towards the tyres on their cars. Surveys conducted by the National Tyre Distributors Association (N.T.D.A.) show that there has been a progressive increase in the number of illegal tyres on the roads. In 1979, 48.4% of all tyres taken off vehicles in a specific week were found to be illegal; in 1982 the corresponding figure was 59.9%. It would seem that a large number of people are willing to put their lives at risk rather than buy a new tyre. A secondary consideration is that this dangerous practice also deprives the tyre producers of replacement

Table 19 Passenger Car Tyre Replacement Ratio in the UK, 1971-82

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
New tyres	1.11	1.24	1.09	1.05	1.06	1.10	n.a.	1.06	1.03	0.89	0.92	0.91
Remoulds	0.61	0.56	0.50	0.44	0.34	0.33	n.a.	0.33	0.29	0.25	0.23	0.21
All tyres	1.72	1.80	1.59	1.49	1.40	1.43	n.a.	1.40	1.32	1.14	1.15	1.12

Sources: calculated from tables 15 and 19 and Business Monitor, PQ491

Table 20 Passenger Car Tyre Replacement Ratio in West Germany, 1971-81

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
New tyres	1.46	1.38	1.28	1.09	1.19	0.96	0.89	0.80	0.83	0.79	0.73
Remoulds	0.62	0.45	0.38	0.30	0.29	0.24	0.21	0.19	0.19	0.18	0.18
All tyres	2.08	1.83	1.66	1.39	1.48	1.20	1.10	0.99	1.02	0.97	0.91

Source: Rubber Trends, No. 94, June 1982, p.27, table 7

Table 21 Passenger Car Tyre Replacement Ratio in France, 1977-82

	1977	1978	1979	1980	1981	1982
New tyres	0.88	0.87	0.78	0.78	0.70	0.69
Remoulds	0.12	0.14	0.14	0.14	0.13	0.13
All tyres	1.00	1.01	0.92	0.92	0.83	0.84

Source: Rubber Trends, No. 98, June 1983, p.35, table 16

sales. Research by Firestone has shown that failure to enforce the tyre laws (then 1mm across three-quarters of the tread) deprives the manufacturers of at least 20% additional replacement sales, whilst a change in the tyre laws, so that the minimum tread depth applied across the whole width of the tyre, would generate a further 30% on top of that (Tyres and Accessories, February 1979, pp.27-8).

Size of Replacement Market by Value

If we now consider tables 22 and 23, we can see that the total value of the car and truck tyre markets, including distributor exports and retreads, in 1982 was £457.7 million. If retreads are excluded, the value of the new tyre replacement market to the manufacturers was £387.8 million (excluding distributor exports, the net replacement market was worth £357.8 million). Significantly, BRMA sales remained static in money terms over this period, however, in real terms car tyre sales fell by 37.9% and truck by 25.2%. Meanwhile, non-BRMA or competitive imports were able to increase their share of the net car replacement market, in value terms, from 20.4% in 1978 to 28.1% in 1982. Similarly, in the net truck replacement market, their respective share increased from 24.4% to 43.4%.

Turning to the value of the market in retail prices; the total car and truck replacement markets increased from £455 million in 1978 to £566 million in 1982. Table 24 shows the average value of a car tyre in the net replacement market at both manufacturers' and retail prices. These figures are very crude estimates and should be treated with caution. Nevertheless, they do show that there was a trend increase in

Table 22 Value of UK Car/Van New and Retread Replacement Tyre Market, 1978-82 (£ millions)

At manufacturers' prices	1978	1979	1980	1981	1982
BRMA[1] (including tubes)	164.4	178.4	163.2	159.2	165.9
Non BRMA imports (inc. tubes)	33.4	44.5	40.7	44.8	53.4
Distributor exports	13.3	8.7	7.7	13.3	18.3
Retreads (BRMA and RMA)	20.7	17.0	14.3	12.0	11.0
Total	232.0	248.6	225.9	229.3	248.6
At estimated retail prices					
Net new tyre market	247	283	259	265	295
Retread market	26	22	18	15	14
Total market	273	305	277	280	309

1 exlcuding sales to exporting distributors.

Source: Rubber Trends, No. 99, September 1983, p.43, table 18

Table 23 Value of UK Truck/Bus New and Retread Replacement Tyre Market, 1978-82 (£ millions)

At manufacturers' prices	1978	1979	1980	1981	1982
BRMA[1] (including tubes)	89.6	111.9	107.0	96.8	109.0
Non BRMA imports (inc. tubes)	13.0	17.0	19.0	25.2	29.5
Distributor exports	11.4	9.1	2.5	12.0	11.7
Retreads (BRMA and RMA)	38.0	40.9	45.8	47.1	58.9
Total	152.2	178.9	174.3	181.1	209.1
At estimated retail prices					
Net new tyre market	133	168	164	159	181
Retread market	49	53	60	61	76
Total market	182	221	224	220	257

1 exlcuding sales to exporting distributors.

Source: Rubber Trends, No. 99, September 1983, p.43, table 18

Table 24 Average Value of Car Tyres in the Net Replacement Market at Manufacturers' and Retail prices, 1978-82

	1978	1979	1980	1981	1982
Retail prices	16.1	18.5	18.9	18.3	20.1
Manufacturers' Prices	12.9	14.6	14.9	14.1	15.0
	3.2	3.9	4.9	4.2	5.1

Sources: calculated from tables 17 and 22

the average mark-up on each tyre, excluding any allowance for inflation. This would seem to indicate that the retailers benefited from the increase in competitive imports. With the landed prices of radial tyres from Eastern Europe costing £7.51, and cheap imports from Portugal Spain and South Korea costing £7.09, £10.84 and £9.98 respectively (Customs and Excise), the profits earned on these tyres was substantial.

Market Shares

Tables 25 and 26 show that in 1971 Dunlop was the market leader in the car and truck replacement markets. At this time, Michelin was lagging in third place in both markets, behind Dunlop and Goodyear. Today, these positions have been reversed, and Michelin is now firmly established as the dominant company in both segments of the market. The main cause of this change around was the increasing radialisation of the British tyre sector. As the inventor of the radial tyre, Michelin's name became synonomous with steel radials, so that as the market for

Table 25 Estimated Market Shares of the UK Car Tyre Net Replacement Market, 1971, 1979 and 1982 (% of total market)

	1971	1979	1982
Michelin	11-13	21	23
Dunlop	33-35	16	17
Goodyear	19-20	12	14
Pirelli	3-5	6	8
Uniroyal	2-4	5	6[1]
Firestone	12-14	8	4[1]
Avon	3-5	2	1[1]
Imports (competitive)	9-11	30	26[1]

1 In 1982 Firestone sales counted as competitive imports, hence for competitive import true total Firestone's share should be added.

Sources: 1971, Rubber Trends No.86, June 1980, p.30, table 12.
1979 and 1982, Rubber Trends No.99, September 1983, p.45, table 21.

Table 26 Estimated Market Shares of the UK Commercial Vehicle Tyre Net Replacement Market, 1971, 1979 and 1982 (% of total market)

	1971	1979	1982
Michelin	16-18	34	35
Dunlop	29-31	21	16
Goodyear	17-19	10	12
Pirelli)		7	7
Uniroyal)	18-20	2	2
Avon)		2	-[1]
Firestone	13-15	7	2[1]
Imports (competitive)	1-3	16	27[1]

1 In 1982 Firestone sales counted as competitive imports, hence for competitive import true total Firestone's share should be added.

Sources: 1971, Rubber Trends No.86, June 1980, p.30, table 12.
1979 and 1982, Rubber Trends No.99, September 1983, p.45, table 21.

radials grew, so too did the demand for Michelin tyres. This allowed the company to take market share from all of its competitors, with the exception of Pirelli and Uniroyal (now owned by Continental) in the car tyre market segment. Meanwhile, Dunlop's slow response in adopting radial technology can be acknowledged as the prime reason why it lost market share in both the car and truck tyre segments.

Although the other tyre companies have now closed the technological gap, they have not been able to undermine Michelin's market dominance. Indeed, between 1979 and 1982, Michelin managed to increase its market share from 21% to 23% in the car tyre segment, and from 34% to 35% in the truck tyre segment.

Since 1971, competitive imports have made substantial inroads into both segments of the replacement market. In that particular year, the importers held 1-3% and 9-11% of the truck and car tyre replacement markets respectively. By 1982, they had managed to push up their share of the former segment to 29%, and the latter to 30%. But substituting imports for UK manufacturing facilities did not prove beneficial to Firestone, which saw its share of the car tyre market fall from 12-14% in 1971 to 4% in 1982, whilst the company's market share of the truck tyre segment declined from 13-15% to 2% over the same period.

Captive Imports

Imports can be broadly classified into two categories: captive (BRMA) and competitive imports. Table 27 reveals that between 1971 and 1981 there was a large increase in both BRMA and competitive imports.

Table 27 UK Car Tyre Imports by Source, 1971-81 (000's)

		COMPETITIVE					
	BRMA	Distri -butor	East Europe	Others	Total	TOTAL IMPORTS	% BRMA
1971	728	495	150	1,082	1,727	2,455	29.7
1972	1,482	595	198	1,226	2,019	3,501	42.3
1973	1,766	650	208	1,129	1,987	3,753	47.1
1974	2,129	805	240	1,091	2,136	4,265	49.9
1975	1,577	958	355	974	2,287	3,864	40.8
1976	1,895	1,507	563	766	2,836	4,731	40.1
1977	2,795	1,579	685	1,353	2,932	5,727	48.8
1978	2,994	1,491	958	1,087	3,536	6,530	45.8
1979	2,824	1,775	843	1,532	4,150	6,974	40.5
1980	2,150	1,539	652	1,300	3,491	5,641	38.1
1981	2,910	2,086	406	1,299	3,791	6,701	43.4

Sources: BRMA, based on sources used for table 17.
Competitive imports, Customs and Excise.
Distributor imports, calculated from Customs and Excise (Total EEC imports - BRMA imports).

In that year captive imports were responsible for just 29.7% of total imports. The following year this figure rose sharply to 42.3%. At the same time, Britain's share of world trade in tyres fell fom 11.5% to 8.5% (see table 35). Car and commercial vehicle tyre output also fell from 32.3 million tyres to 30.3 million units (Rubber Statistical Bulletin, February 1973). Even before the onset of the first oil crisis, and certainly long before the radial tyre was able to make its impact felt on the market, there was sufficient evidence available to suggest that the British tyre sector was beginning to experience difficulties.

Captive imports remained at very high levels throughout the 1970s and the beginning of the 1980s, ranging from 40% to nearly 50% of total imports. The large and sustained high levels of BRMA imports can be

attributed to the highly developed system of international sourcing operated by the tyre companies. According to NEDO (1978b):

> "UK tyre plants are part of the European scene. The demand for tyres in Europe is increasingly being served by an integrated production and marketing system. The tyre companies, with one or two exceptions, are multinational with plants and factories all over Europe. Because of this there is a high degree of international sourcing between EEC countries.
>
> Within this system, the UK tyre industry has not been holding its own. More and more of the UK market for tyres is being satisfied by imports; less and less of world trade exports in tyres is being secured by the UK. And because of this, employment is declining" (p.2).

As part of company policy, individual plants may be used to specialise in the production of a particular type or size of tyre to supply the needs of the European market. When necessary, however, companies will seek to switch production, albeit on a temporary basis, from one country to another to take advantage of lower costs, or to tackle shortages of supply brought about, for example, by increased demand, bottlenecks or industrial disputes. Companies also seek to capitalise on exchange rate and price variations, and sourcing arrangements may be determined by the competitive advantages these bestow on one country relative to another.

Table 28 shows just how important international sourcing is to the British-based tyre companies. The integration of their European operations led to an inexorable rise in captive imports after 1971. Spokesmen for Dunlop and Michelin claimed that production difficulties at home in 1974 (presumably the "four day week") and 1977 made it necessary for them to import tyres from their European plants (NEDO/RP/IS (78) 3rd Meeting, 17 April 1978, p.1). Significantly, in

both these years there was a substantial increase in the level of

Table 28 Captive Imports Share of BRMA Net Replacement[1] Sales, 1971-82

	BRMA Net Replacement[1] (000's)	BRMA Imports %
1971	11,984	6.1
1972	14,106	10.5
1973	13,046	13.5
1974	12,470	17.1
1975	12,641	12.5
1976	12,978	14.6
1977	11,989	23.3
1978	11,780	25.4
1979	11,151	25.3
1980	10,211	21.1
1981	10,652	27.3
1982	10,466	25.9

1 BRMA Net Replacement = BRMA Replacement Sales - distributor exports

Sources: calculated from tables 17 and 27

captive imports. However, in the first instance, captive imports soon fell back to their previous level, but after 1977, they plateaued at a much higher level. More importantly, captive imports were increasing while BRMA net replacement sales were shrinking, confirming that captive exports were being used to displace domestic production.

Competitive Imports

Competitive imports have similarly displayed an upward trend since 1971, topping 4 million tyres in 1979, before falling back to 3.5 million in 1980 and recovering to 3.8 million in 1981. If we examine the make-up of these imports, we can see that the single most important source was distributor or parallel imports. These are tyres shipped in

by independent dealers, taking advantage of the large discounts prevailing in Europe in concert with favourable relative changes in the exchange rate. Their impact on the net replacement market can be seen from table 29, which shows that parallel imports increased their share from 4.3% in 1973 to 14.4% in 1981.

Table 29 Import Penetration of the New Car Tyre Replacement Market by Source, 1971-81 (%)

		COMPETITIVE				
	BRMA	Distri-butor	East Europe	Others	Total	TOTAL IMPORTS
1971	5.3	3.6	1.1	7.9	12.6	17.9
1972	9.2	3.7	1.2	7.6	12.5	21.7
1973	11.7	4.3	1.4	7.5	13.2	25.0
1974	14.6	5.5	1.6	7.5	14.6	29.2
1975	10.6	6.4	2.4	6.5	15.3	25.9
1976	12.0	9.5	3.6	4.8	17.9	29.9
1977	18.7	10.6	4.6	9.1	19.7	38.4
1978	19.5	9.7	6.3	7.1	23.1	42.6
1979	18.5	11.6	5.5	10.0	27.1	45.6
1980	15.7	11.2	4.8	9.5	25.5	41.2
1981	20.1	14.4	2.8	9.0	26.2	46.3

Source: calculated from tables 17 and 27.

The next major source of imports were the countries of Eastern Europe. By "dumping" tyres on the British market, the East Europeans managed to increase their share of the replacement market from a negligible amount at the start of the 1970s, to reach a peak of 6.3% in 1978. This source of supply subsequently tailed off, dropping particularly sharply from 4.8% in 1980 to 2.8% in 1981, following an undertaking by the Eastern European producers to refrain from "dumping" tyres in the British market. Though their share of the replacement was quite small, the volume of tyres from this source together with their

low prices, proved sufficient to depress prices in a market already suffering from overcapacity.

In total, competitive imports captured an increasing share of the replacement market, up from 12.6% in 1971 to reach a peak of 27.1% in 1979. Competitive imports also exceeded captive imports in every year after 1971, though in some years only just so. Overall, competitive and captive imports combined were supplying nearly half the car tyre replacement market by the end of the 1970s.

Share of World Trade

Another yardstick by which to measure the performance of the British tyre sector is the home industry's share of world exports. In 1961, the UK accounted for 22% of the world trade in tyre exports (NEDO, 1979, p.6). However, Britain's failure to exploit the major markets and those of the developing nations is mirrored by her declining share of world trade. Table 30 measures Britain's share of world exports since 1970. This is based on OECD data which excludes non-OECD countries, principally the East Europeans, and therefore slightly overstates individual country's share of world trade.

In 1980, the total value of world exports amounted to just over $7 billion, with car and commercial vehicle tyres accounting for 35% and 38% respectively of total exports (NEDO, TI(82)7, 8 February 1982, p.2). The major exporting nations in 1980, ranked according to their share of world trade, were: France; Japan; West Germany; UK; Italy and the United States.

Table 30 Share of World Trade Exports for Tyres[1] held by the UK and Other Selected Countries, 1970-80 (%)

	Total OECD Exports ($m)	UK	FR	GER	IT	J	US	Other
1970	1,063	11.8	21.5	11.3	10.0	15.3	7.4	22.8
1971	1,291	11.5	20.2	11.2	11.3	16.3	6.8	22.8
1972	1,552	8.5	21.1	13.9	11.4	15.4	6.0	23.8
1973	2,065	8.1	21.0	16.4	9.9	12.6	6.5	25.5
1974	2,838	7.1	19.0	17.3	7.4	14.5	10.7	24.0
1975	3,400	8.5	20.8	14.2	8.1	16.0	8.6	23.7
1976	3,679	9.3	19.5	14.4	8.8	16.3	6.0	25.8
1977	4,139	8.0	20.1	15.1	8.3	16.6	6.9	24.9
1978	4,736	7.9	20.5	15.5	8.8	15.7	5.9	25.7
1979	5,829	7.3	21.4	14.5	8.9	15.4	6.1	26.4
1980	7,164	8.7	20.0	12.7	7.3	19.3	7.1	24.9

1 includes total tyres and tubes for vehicles and aircraft.

Source: NEDO, TI(82)7, 8 February 1982, p.1

Significantly, Britain's share of world exports fell sharply from 11.5% in 1971 to 8.5% in 1972. The evidence available would suggest that Britain's slow start in adopting radial technology contributed, initially, to her loss of world trade, especially exports to the major markets in Europe.

France, by contrast, as the home-base of Michelin, was able to maintain her position as the world's leading exporter of tyres. Closely followed by Japan, who alone of the major exporters increased her share of world trade over the period.

Like Britain, West Germany also lagged behind in radial technology during the early 1970s, but she managed to maintain her export base

owing to the quality of her labour force (Hood and Young, 1982, p.140). Her position as a major exporter was, however, undermined in the latter part of the seventies by the rise in the value of the DM (Ibid), so that tyres produced in West Germany became amongst the most expensive in the world because of the high value of her currency and manufacturing costs (Rubber Trends, No. 94, June 1982, p.33). Nevertheless, West Germany was still able to retain a significantly higher share of world trade than Britain.

Summary

The failure of the British tyre manufacturers to invest in steel radial technology left the domestic industry dependent on crossply production at a time when the market was switching to steel. The increased life of these tyres effectively contributed to a halving of market demand. To make matters worse, the radialisation of the British market coincided with the first oil crisis, which further depressed domestic sales.

The response of the tyre companies was to close down their obsolete production facilities in Britain and Europe. As Britain was more heavily dependent on crossply production, she suffered a greater loss of productive capacity and jobs. In the meantime, the tyre companies imported steel radial tyres from their European factories to meet the increase in domestic demand. Hence, imports started to rise, whilst Britain's share of world trade fell, as the domestic manufacturers were unable to respond to the changes in market demand in the major economies.

Additionally, Britain's dependency on outdated technology also made the home market vulnerable to cheap imports, and they were able to increase their share of the domestic market.

In the following sections we shall examine the policies pursued by the motor manufacturers to assess their impact on the British tyre sector.

Sales

Original equipment sales broadly parallel vehicle production patterns. From 1964 until 1972, the pattern for both of them in the UK, was one of stagnation followed by absolute decline. As a result, OE car tyre sales declined from a peak of 9.6 million units in 1972 to 4.6 million in 1981, before recovering to just under 6 million tyres in 1983. Details of car and truck original equipment sales are shown in table 31.

Table 31 Original Equipment Tyre Sales in the UK, 1973-83 ('000 units)

	Car/Van			Commercial Vehicle		
	Crossply	Radial	Total[1]	Crossply	Radial	Total[1]
1973	1,962	6,742	8,703		)	1,095
1974	987	6,355	7,342	319	641	960
1975	567	5,411	5,978	326	604	929
1976	605	6,223	6,828	285	712	997
1977	395	6,985	7,380	291	763	1,054
1978	296	6,991	7,288	270	739	1,009
1979	254	6,824	7,079	221	815	1,037
1980	136	5,309	5,445	214	634	848
1981	123	4,509	4,633	113	391	504
1982	93	4,860	4,952	116	525	641
1983	54	5,867	5,921	86	541	627

1 may not add up to total due to rounding.

Source: Rubber Statistical Bulletin (various issues)

The prime cause of this slump was the decline in British car production and the growth in imports. Table 32 shows that during the two decades since 1960, the British car industry lost its position as the second largest producer outside North America (behind West Germany)

Table 32 Share of World Car Production by Major Producing Countries 1960-81 (%)

	1960	1965	1970	1975	1980	1981
France	9.0	7.1	10.0	10.1	10.0	10.3
West Germany	14.2	14.2	15.6	11.5	12.1	12.4
Italy	4.4	5.7	7.6	5.4	4.9	5.1
Japan	1.3	3.6	14.1	18.1	24.1	24.8
UK	10.6	8.9	7.0	5.0	3.3	3.3
USA	52.4	48.6	29.0	26.6	21.8	22.4
Rest of World	8.1	11.9	16.7	23.3	23.8	21.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: McArdle and Jones, 1982

to become the fifth largest - having been overtaken by France, Italy and Japan. Further, in 1980, the UK also produced less cars than Spain (SMMT, 1981).

Table 33 illustrates the effect of the decline in UK car production levels on original equipment demand. The statistics are admittedly crude, with no allowance made for unassembled vehicles which are not normally fitted with tyres but, nevertheless, it does illustrate the impact that declining car output has had on the British tyre manufacturers. Over the same period France was able to increase its tyre output by 6 million tyres, West Germany by 4.5 million and Japan by 31.5 million.

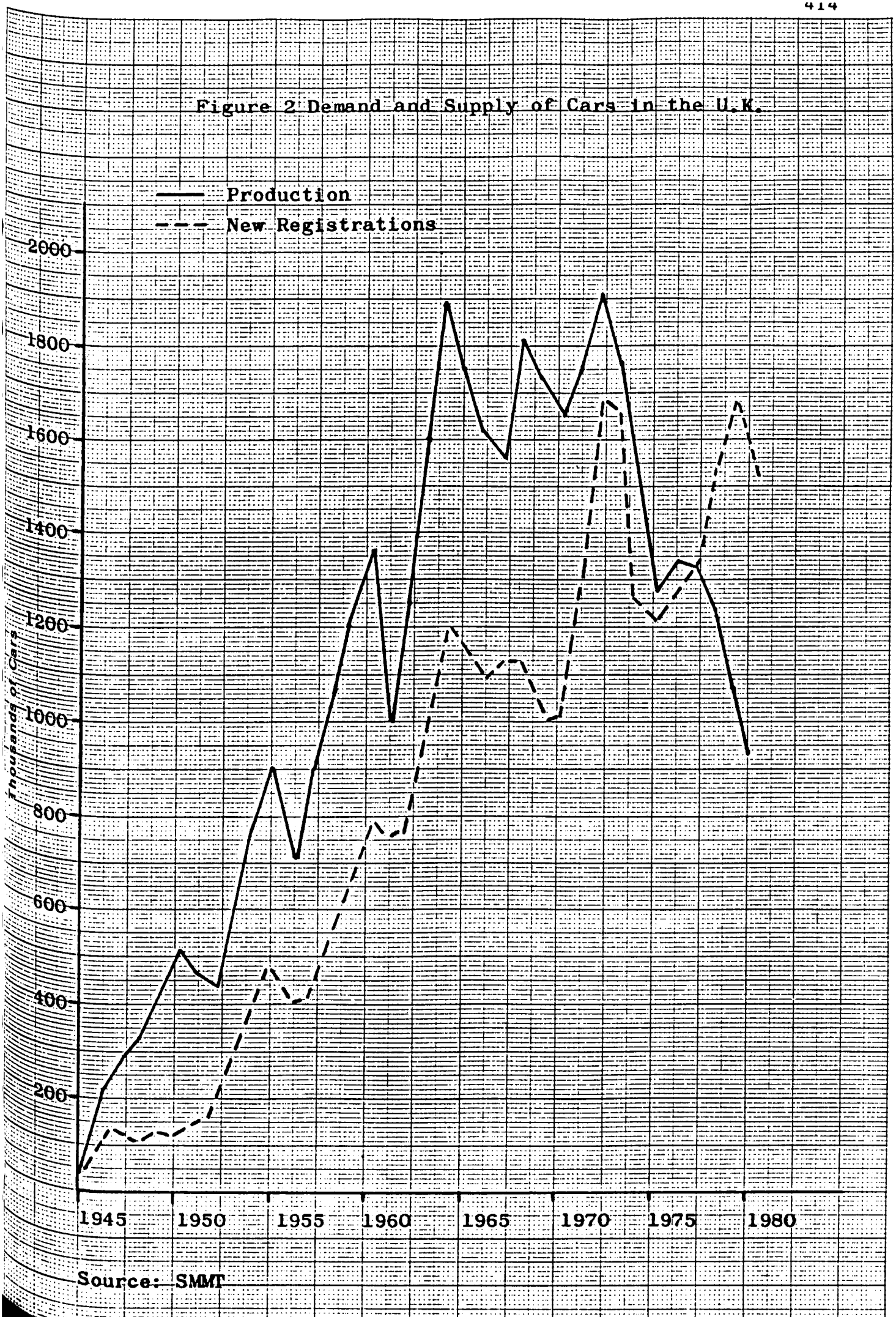
Table 33 International Car Production Levels and OE Tyre Demand (millions)

	Car output		
	1965	1981	Change
France	1.4	2.6	+ 1.2m cars or 6.0m tyres
W Germany	2.7	3.6	+ 0.9m cars or 4.5m tyres
Italy	1.1	1.3	+ 0.2m cars or 1.0m tyres
Japan	0.7	7.0	+ 6.3m cars or 31.5m tyres
UK	1.7	1.0	- 0.7m cars or 3.5m tyres

Source: SMMT, 1966 and 1982

Figure 2 illustrates the growth in home car production and new registration since 1945. During the 1950s and 1960s, there was a rapid increase in demand for cars, reaching a peak of 1.2 million in 1964, before falling back and stabilising at just around 1 million cars. Meanwhile, production kept on rising as government put an emphasis on the export market. Then in July 1971, hire-purchase restrictions were removed, which stimulated a sharp increase in demand, as new registrations reached a peak of 1.7 million in 1972; production similarly peaked at 1.9 million cars. Following the first oil shock, demand and production fell in unison, but as demand picked up production continued to decline, so that by 1977 new registrations had actually outstripped production. In 1979, demand reached a new peak of 1.73 million, whilst production was falling back to levels pertaining in the mid-1950s. This was because the motor manufacturers were not prepared to invest in new plant and machinery to meet expected increases is demand. According to Rhys (1980):

Figure 2 Demand and Supply of Cars in the U.K.



Source: SMMT

> "The short-run elasticity of supply depends upon both the degree of capacity utilisation and the efficiency with which particular manufacturers can change output levels. The boom in demand in 1972-3 found the industry wanting and various production difficulties lost some one-fifth of achievable output. In the longer term the industry has traditionally responded to the growing vehicle market by new net investment. This was so in 1946-7, 1955-7 and 1962-5. However, the strong demand in the early 1970s did not produce increases in capacity. Indeed because of the financial difficulties of companies and the commitment of multinationals to export in kit form from the UK, final assembly capacity fell from 2.5 million units in 1973 to 2.3 million in 1978" (p.182).

The policy of the four volume car producers since 1970, has been to reduce their output of British produced cars. In 1972, BL was producing over 900,000 cars, but by 1981, it was producing just over 400,000 cars (SMMT, 1982). Similarly, over the same period, Ford reduced its output of cars from around 550,000 to just under 350,000 (Ibid). As a consequence imports were able to increase their share of the domestic market from 5% in 1965 to 55.7% in 1981 (Ibid).

Historically, the British manufacturers have regarded the home market as largely captive, based on protectionism and the consumers wish to buy British cars. However, the Dillon Round, 1962-68, lowered the import duty on vehicles from 33% to 22%, and the Kennedy Round, 1968-72, reduced the duty still further to 11%. In 1973, Britain joined the EEC and by July 1977, duty on community imports had been removed, allowing the European producers to exploit the British market. But, the lowering or elimination of tariff barriers were not the sole cause of the increase in import penetration:

> "The surge in imports in 1972 was a reflection of the inability of the UK car industry to supply enough of the right type. The lack of investment in the 1960s had left the industry with uncompetitive facilities and an ageing model range. The UK consumer was now presented with a greater range of vehicles, especially in the small to medium range in the mass market than he had enjoyed since the early 1930s, when some fifteen firms had offered their wares. By 1980 some eighteen domestic, West and Eastern European, US and Japanese firms were competing in the bargain basement of the car market" (Rhys, 1980, p.186).

Up to 1973, the trend had been to larger-engined cars. The oil crisis reversed this trend, so that by 1974 cars with an engine capacity of less than 1200cc accounted for 25% of total sales (Bhaskar, 1979, p.119). The foreign manufacturers were able to meet this demand, whereas the British producers were unable to respond. Consequently, the importers were able to increase their share of this segment of the market from 19% in 1971 to over 50% in 1978 (Ibid). Only the Mini and the Hillman Imp, and later with the introduction of the Vauxhall Chevette, the Ford Escort and Fiesta and the Chrysler Sunbeam, were the home producers able to compete effectively with the importers.

The rise in imports can also be attributed to the steep increase in tied imports, especially since the mid-1970s, brought about by the integration of production facilities by the motor companies. Ford began to integrate its European operations with the establishment of Ford Europe in 1967, followed by the production of common models in Britain and West Germany: the Capri in 1969 and the Cortina in 1970. In the late 1970s, the Fiesta was produced in Dagenham, Saarlouis, and Valencia; and the Escort in Halewood and Saarlouis. General Motors, on the other hand, only fully integrated its Belgium and West German plants in the late 1970s, leaving Vauxhall to operate as a separate entity.

The company's strategy was based on a concept of national differences in demand between individual European markets, which provided the home plants with sufficient economies of scale to meet this demand (Bhaskar, 1979). However, by the early-1980s the success of Ford's European-wide models prompted GM to adopt a similar strategy.

Economics of Integration

The integration of production facilities was largely determined by economic considerations. In the 1950s, fixed costs accounted for about 15% of the total costs of car production (Maxcy and Silbertson, 1959), but by the 1970s safety legislation and emissions regulations had increased fixed costs to just over 30% of total costs (CPRS, 1975). Manufacturers now faced the choice of relying on high volume in order to reduce unit costs and maintain profit per unit or, alternatively, they sought economies of scale through innovations in the production process by making greater use of microprocessors and robotics in engine, body, assembly and design to increase productivity and quality and lower unit costs. Thus reducing the capital costs of model changes and allowing these costs to be spread over a number of models or several generations of models (Altshuler et al, 1984).

Table 34 shows the minimum efficient scale in the various car manufacturing operations, and the respective output at which a company can expect to achieve economies of scale. These estimates pre-date the impact of robotics in body assembly. Nevertheless, it is clear that the different manufacturing processes all have a varying range of minimum efficient scale. A car manufacturer may not be able to balance all of

Table 34 Minimum Efficient Scale in Car Manufacturing Operations

Casting of engine blocks	1 million
Casting of other parts	100,000-750,000
Powertrain machinery and assembly	600,000
Axle machinery and assembly	500,000
Pressing of various panels	1 to 2 million
Painting (undercoats, etc)	250,000
Final assembly	250,000

Source: Rhys, 1980, p.183

these processes to perfectly meet his desired output level. Consequently, some of these operations will have to work either side of optimum capacity. But with final assembly and power train manufacture accounting for about 70% of an efficient car producers' total internal costs, it is essential that they at least operate at optimum levels (Rhys, 1977, p.316).

The CPRS (1975) found that three-quarters of the eighteen continental assembly plants it analysed met this minimum criterion (based on 200,000 units), compared with less than one-third of British plants. On this basis, it was estimated that if all the British plants could reach this level, then the home manufacturers could produce 2 million cars a year with just ten assembly plants, as opposed to the thirteen then in operation. Since then two assembly plants have closed, one by BL at Speke in Liverpool in 1978, the other by Talbot at Linwood in Scotland in 1981.

Working from the figures presented in table 34, it can be seen that the production of one million cars is the minimum output at which a

company can expect to achieve economies of scale, whilst maximum efficiency is obtained at two million units. Ideally, individual models should be produced at an output level exceeding 200,000 per year (Bhaskar, 1979, p.25). The corresponding figure in the executive and luxury market segments are 100,000-200,000 and 30,000-50,000 respectively. To ensure that full use is made of economies of scale, motor manufacturers must use common engines and body parts in as many models as possible. By increasing output from 250,000 to two million cars per year produces unit cost savings of 15-20%, whilst increasing output from one to two million reduces unit costs by about 6% (Rhys, 1980, pp.183-4). The effect of these cost reductions on profitability is substantial because profits seldon exceed 10% of turnover and often fall to half this level (Rhys, 1977, p.315).

In total, there are just six manufacturers producing more than a million cars a year in Western Europe: Ford; General Motors; Peugeot group; Renault; Volkswagen; and Fiat. BL (before Jaguar was separated and privatised), was the only other full range car manufacturer, and it was producing less than half this number. Combined, these seven companies and their associates (i.e. Renault-Volvo link) control about 90% of European car production (Jones, 1981, p.3). World production is similarly highly concentrated, the eight largest producers: General Motors; Toyota; Nissan; Ford; Volkswagen-Audi; Renault; Peugeot group and Fiat are based in five countries: the United States; Japan; West Germany; France and Italy, and between them they account for 70% of world output (Financial Times, 19 October 1982).

Some believe that we are now witnessing a global integration of the

major markets with a convergence in the patterns of demand, leading to restructuring and rationalisation at a global level (Jones, 1981). This has been brought about by the two oil crises in the 1970s, resulting in US Government legislation to promote more fuel efficient cars. The US car manufacturers responded by downsizing their American model ranges, which led to an influx of more competitive imports from Europe and Japan. The Japanese were thus able to increase their share of the United States market from 3% in 1970 to 20% by 1980 (Hogg, 1982, p.42).

This led the American manufacturers to develop the concept of the "world car", which would be suitable for all three major markets. Their strategy was to achieve major economies of scale in production and development by producing variants of the same basic model for the three markets. Thus, allowing Ford and General Motors to assemble the Escort and Cavalier ('J'-car) respectively, from parts produced at the least cost from any factory in the world. However, UK content regulations and pressure to produce in the home market, rather than source from Europe and Japan, has prevented the complete integration of the three markets, but it has not discouraged the global integration of operations by Ford and General Motors (Jones, 1981).

Small volume manufacturers like BL have, nevertheless, managed to survive in spite of their heavy reliance on their domestic market. This has been achieved, as we saw earlier, through the application of robotics and new technologies in the production process. Furthermore, BL was able to reap the advantages of economies of scale by "buying-in" major components, as for example, gearboses from Honda and Volkswagen, and by entering into a joint venture with Honda, to design and produce

cars for sale world-wide.

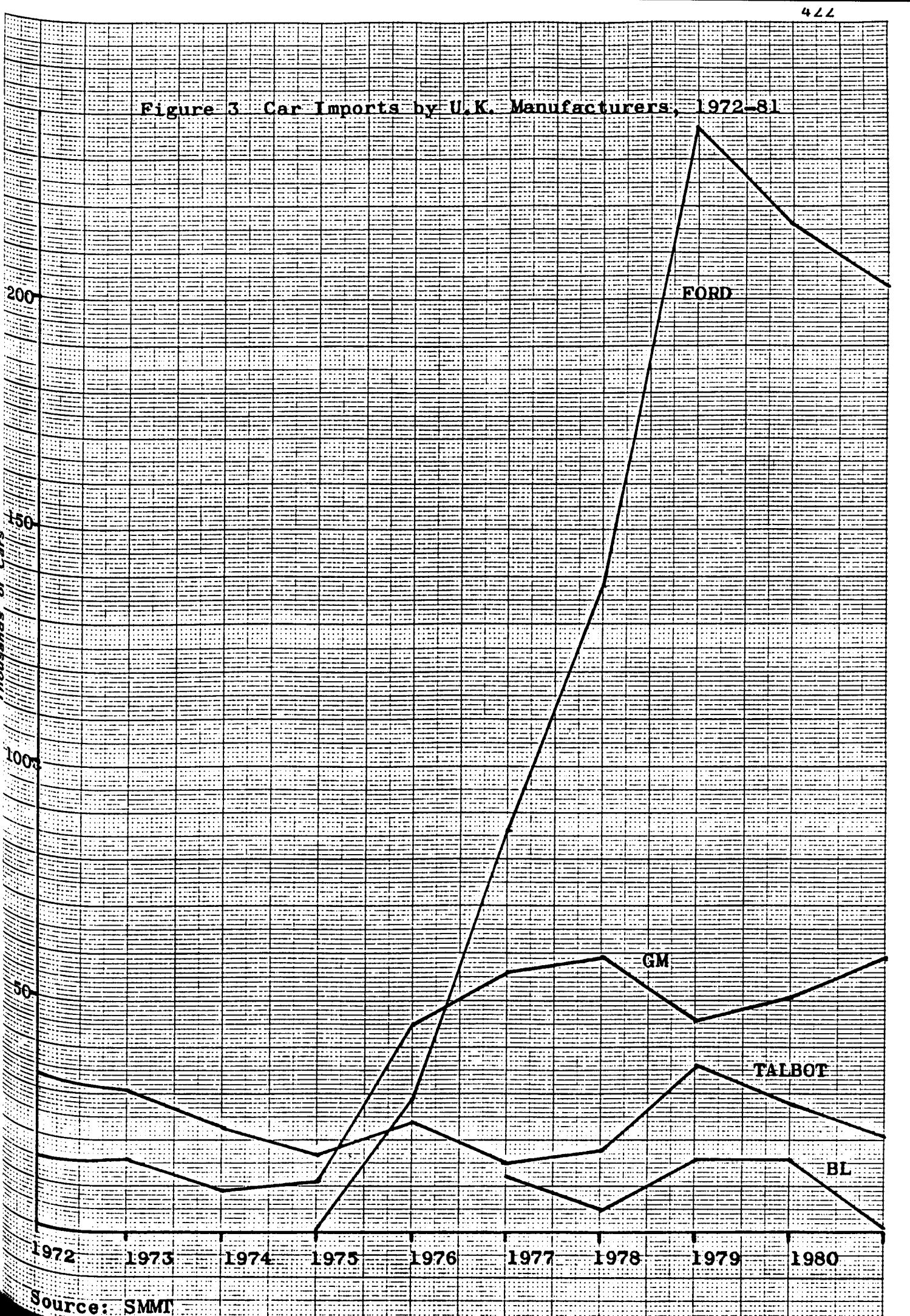
These policies have, however, had a major impact on the UK's trading performance and, ultimately, on job prospects. Panic and Joyce (1980) observed that:

> ".....during a period in which the trade performance of UK industry was generally declining, exports increased more slowly relative to imports, in good produced by the sectors where foreign participation was higher than average for manufacturing industry. Consequently these sectors have experienced the biggest deterioration in their trade balances.....Vehicles and textiles provide clear examples of such deterioration in trade performance" (p.48).

Figure 3 shows that integration encouraged Ford, GM and later Talbot to accelerate their policy of sourcing from abroad. In 1981, 44.3% of all new Ford cars and 46.3% of all new GM models registered in the UK were imports compared with 0.2% and 11.3% respectively in 1975 (calculated from SMMT 1976 and 1982). Additionally, in 1973 tied or captive imports accounted for less than 2% of home demand, by 1981 284,000 new registrations were captive imports, representing 34.4% of all imports or 19.1% of the total market (calculated from SMMT data). In terms of "lost" tyre sales this was equivalent to 1.4 million passenger units. Not surprisingly the Central Policy Review Staff (1975) reported that it was:

> ".....unrealistic,.....to expect that the import share of the British car market can consistently be cut back below 28%.....On the other hand, import penetration into the United Kingdom could reach 45% if the competitive weaknesses are not corrected. Imports already account for 45% of new cars registered by private buyers and the import share could well reach 45% of the total market, if the multinationals implement what the CPRS understands to be their present plans for supplying the British market from their continental plants" (p.106).

Figure 3 Car Imports by U.K. Manufacturers, 1972-81



Source: SMMT

These fears were fully realised by 1977, when imports just exceeded 45% of the total market, and increased to nearly 56% in 1981 (SMMT, 1982). This was because the importers were able to gain 60-80% of the private car market (Bhaskar, 1979, p.115). The Japanese in particular increased their share of the British market from 0.4% in 1970 to nearly 10% by 1980 (SMMT, 1971 and 1981).

The greater part of this increased share of the market taken by the importers was at the expense of British Leyland, whose market share fell from 40% at the beginning of the 1970s to just under 20% by 1979 (SMMT, 1980), and Talbot whose market share fell from 11% in 1970 to less than 5% in 1981 (SMMT, 1971 and 1982).

In 1977, Ford took over from BL as market leader, after having previously lost market share between 1972 and 1975. But, although Ford captured some of the market share lost by BL and Talbot, it was the foreign importers who were able to take most advantage of the contraction in sales of these two companies. Evidently, the lack of investment by Ford in modern plant in the 1960s and early 1970s, left it vulnerable to the stylish imports of small and medium range cars, especially those produced by Datsun, Honda and Toyota.

Table 35 however, reveals that the largest section of the market is the business segment. During the 1970s, it ranged from 55-65% of the total car market, possibly reaching as high as 70% (Bhaskar, 1973, pp.8-9). At the present time the business sector is dominated by Ford,

Table 35 The Business Segment of the UK Car Market

	1975/76	1978/79	1980/81	1982
Company registered cars as % of the market	38	45	40	41
Company owned but privately registered as % of market		12	10	10
Company assisted purchase as % of the market	18	7	10	10
Total	56	64	60	61

Source: Bhaskar, 1983, p.8

though there is evidence that the importers are now making inroads even here. If this trend continues the importers (excluding tied imports) could capture almost half of the total car market. But for this to happen the Government would have to rescind the 11% market share agreement negotiated with the Japanese. Indeed, only import controls and restrictions have prevented the Japanese from gaining a larger share of the European market. It has been estimated that these protectionist measures have so far reduced Japan's car imports to Western Europe by 500,000 a year. Otherwise it is assumed that the Japanese would have captured 10% of the market in Italy, Spain and France, and 20% in the UK; the equivalent of 120,000 cars in Italy, 70,000 in Spain, and 150,000 in both France and the UK (Jones, 1981, p.71).

Any increase in the level of vehicle import penetration will have a major impact on domestic tyre production, because each imported car carries five imported tyres. Captive imports, however, present less of a problem, given the international sourcing policies of the tyre

companies, as these vehicles carry identical tyre sizes to similar cars produced in Britain and, therefore, their replacement needs can be readily met. Competitive imports, on the other hand, may require different replacement tyre sizes, providing a "magnet" to further tyre imports. Alternatively, some of these new tyre replacement sizes can, and are being met, by the British-based companies, but this ultimately depends on the length of the production run and the costs involved.

Any increase in import penetration, whether captive or competitive does, nevertheless, have an adverse affect on the OE tyre sector, primarily because practically every car imported is in a completed form. The level of imports during the early 1980s represent a production "loss" of about 4.5 million car tyres per annum. By comparison, table 36 shows that the majority of cars exported are in an unassembled form. Tyres fitted to these vehicles are usually supplied from sources in or close to the country of assembly (Fishwick, 1977).

Table 36 UK Trade in Motor Cars, 1970-80

	1970	1973	1974	1975	1976	1977	1978	1979	1980
Exports (000's)[1]									
Assembled	375	250	238	226	266	243	232	193	164
Unassembled	315	349	327	291	230	232	234	217	195
Total	690	599	565	516	496	475	466	410	359
% Unassembled	45.7	58.3	57.9	56.3	46.4	48.9	50.2	52.9	54.2
Imports (000's)[1]									
Assembled	158	505	375	449	523	678	801	1061	863
Unassembled	-	-	-	-	12	21	-	-	-
Total	158	505	375	449	534	699	801	1061	863

1 may not add up to totals due to rounding

Source: SMMT, The Motor Industry of Great Britain (various issues)

The trends portrayed in the above table reveal that exports of both assembled and unassembled vehicles fell considerably between 1970 and 1980. In the case of assembled vehicles, the reduction was greater than 50%, which was equivalent to a production "loss" in 1980 of over a million tyres compared to 1970. Additionally, since 1978 exports of assembled vehicles have fallen faster than those of unassembled vehicles.

In summary, the key problem was that the high levels of imports, in particular tied imports, were not compensated for by a similar increase in the levels of exports. The reasons for this were explained by Rhys (1980):

> "The UK's poor trade performance was partly due to its exclusion from the EEC during a period of rapid economic growth and trade creation within the Six. During this period the multinationals used their smaller home market base in the UK to service their non-EEC markets. This often meant the sale of cars in kit (ckd) form for overseas assembly. Consequently the incentive to renew, let alone expand, UK assembly capacity was blunted. This incentive was further reduced by BLMC's preoccupation with almost continual reorganisations and short-term labour difficulties. Both factors interrupted the flow of production and new model programmes and alienated foreign dealer chains, harmed company finance, morale and product development. All these elements militated against any concerted export drive" (p.187).

The export policies of the British-based subsidiaries are determined by the corporate strategies of their respective parent companies. The Expenditure Committee (1975) noted that only BL was able to export worldwide without any restrictions placed on markets or model design. All of the other major manufacturers in the UK: Ford, Vauxhall and Talbot, had progressed to the stage where their ckd exports were more important than their built-up exports. The Expenditure Committee

spelt out the dangers associated with this strategy:

> "If the multinationals use the UK as a centre for the production of vehicles in C.K.D. form, British capacity for making built-up cars will be limited. At times of strong demand, this may lead to increased import penetration. It will also reduce British ability to meet demand in high-income developed countries. There is the additional danger that developing countries may increase their manufacturing (as opposed to assembly) capability" (p.112).

Statistical evidence from the SMMT confirms that the multinationals use their UK operations essentially to source the home market. After the mid-1970s, Ford, GM and Talbot stopped exporting British produced cars to the North American market. Previously, the British subsidiary was the sole source of captive imports by Ford-US. From 1956 to 1960, over 120,000 British produced Fords were sold in the United States, and over 80,000 between 1966 and 1970 (Maxcy, 1981, p.222). Since then Ford-US has imported Capris from West Germany and Fiestas from Spain. Whilst General Motors sources the American market with small cars from its Japanese associate, Isuzu. The American multinationals have used their subsidiaries to supply small cars to the American market, but lack of investment in the British plants to expand capacity, ensured that these factories would not be retained as the main source of supply.

The multinationals operate similar policies in Europe to prevent their subsidiaries competing with each other in these markets. In 1981, Ford exported 28,000 cars or 31% of its total exports to the EEC, compared with 53,000 in 1977 (SMMT, 1978 and 1982). Over the same period, Vauxhall exported 6,000 cars, all to the EEC, compared with 12,000 in 1977 (Ibid), which was equivalent to 55% of its total exports. The export performance of Talbot was also relatively poor. In 1975, the

company exported 170,000 cars, of which 136,000 were ckd kits destined for Iran, as part of a long-term contract originally negotiated by Rootes. By 1981, Talbot exported 72,000 cars, of which 66,000 or nearly 89% of total exports went to Iran (SMMT, 1982).

Of the domestic manufacturers, only BL can be considered a major exporter, and in most years its exports were greater than the combined total of the other three companies. However, the lack of investment in suitable models also seriously affected BL's export performance. In 1976, BL exported 309,000 cars worldwide, of which 151,000 went to the European Community, but by 1981 these figures had fallen to 122,000 and 92,000 respectively (SMMT, 1977 and 1982).

The lack of investment in the British motor industry over the postwar period, together with the concomitant export strategies of the motor manufacturers, contributed to a decline in the UK's share of world car exports, which fell from 35% in 1955 to 6% in 1978 (Rhys, 1980, p.187).

Table 37 confirms the effect of these export strategies on Britain's share of Community imports, which fell from 5.4% in 1970 to 2.4% by 1980.

Table 37 Britain's Percentage Share of EEC (8) Car Imports (by Value), 1970-80

	1970	1975	1976	1977	1978	1979	1980
Share	5.4	2.8	2.7	3.0	2.8	2.3	2.4

Source: OECD

Investment and Productivity

Some students of the motor industry (CPRS, 1975; Jones and Prais, 1978; Dunnett, 1980) have attributed the poor performance and low productivity of the British motor industry to factors other than under-investment.

Dunnett (1980) asserted that the "stop-go" economic policies pursued by successive governments during the 1960s and early 1970s, to damp down consumer demand to improve the balance of payments position, had an adverse affect on the British motor industry because the purchase of a motor car is largely determined by the level of personal disposable income (i.e. it is income elastic).

A study by the SMMT concluded that from 1960 to 1974, there were 24 changes in government policy affecting the motor industry, 10 were considered favourable and 14 unfavourable (Bhaskar, 1979), whereas the West German motor industry by comparison was less affected by regulatory policy changes; over the same period there were just three such changes (Dunnett, 1980). The CPRS (1975) similarly concluded that government regulatory policy had made forward planning in the motor industry extremely difficult.

Other writers have disputed that the poor performance of the British motor industry can be attributed to "instability of demand", induced by government policy. Indeed Jones and Prais (1978) pointed out that:

> ".....the German and American car industries have shown much the same relative variability about a trend as has the British car industry over the past twenty years. There is no doubt that car production is much more variable than is industrial production as a whole (in Britain it is about five times as variable). But that appears to be an inescapable characteristic of this industry, and is a result of the product's being relatively durable, and its purchases postponable, much as other capital goods. There is no factual support for the view that in the British 'demand-managed' economy the car industry has been more variable than in other countries" (pp.146-7).

More recently other researchers have also questioned the possible impact of government policy on the industry:

> "We would not deny that there were switchback fluctuations in the demand for new cars. The rapid increase in new registrations periodically faltered. After the Suez fiasco in 1956, new registrations declined by some 20 per cent, as they did during the oil crisis around 1974.....In three lesser fluctuations in the 1960s, smaller declines of 7 to 12 per cent in new registrations were recorded; the peak to trough decline was 7.5 per cent in 1961 versus 1960, 10.3 per cent in 1966 versus 1964 and 11.5 per cent in 1969 versus 1968.....Furthermore, although the situation was more complicated in 1956 and 1974, government policy changes on purchase tax levels and hire-purchase repayments clearly did precipitate all three downturns in the car market of the 1960s. Nevertheless, we would argue that authors like Dunnet (1980) have placed too much emphasis on the damaging effects of such policy-led fluctuations" (Williams et al, 1983, p.230).

There have also been similar disagreements about the causes of low productivity in the industry, in spite of three major government reports and numerous academic publications on the subject. A key difficulty is that even trying to make productivity comparisons between companies operating in the same country presents a number of methodological problems, when these are extended to make international comparisons between companies, these problems become even more acute. For example, individual companies make different types of cars, as well as having a

different product mix (i.e. the labour content of a commercial vehicle is higher than that of a mass-produced car) from that of their competitors at home and overseas. There are also different raw material imputs, "bought-out" components as a proportion of raw materials used vary between companies. At Vauxhall, for example, 85% of its components are "bought-out" (Expenditure Committee, 1975, p.41). An assembly orientated company of this kind cannot be directly compared to one that is relatively integrated like British Leyland.

According to the CPRS (1975), the main cause of low productivity was low labour productivity:

> "On average, the man hours required in Britain to assemble the same, or a similar, car are about double those required on the continent. The implications for the British car industry are extremely serious. Either twice as many men are needed to produce the same number of cars; or equally manned lines are half as productive, which again raises unit costs substantially above those of the competition" (p.81).

The CPRS compared the number of vehicles produced per employee per year in several countries for 1955, 1965 and 1973 as shown in table 38 below. From this they estimated that productivity in the British motor industry was about 30% lower than in France, Italy and Germany, whereas twenty years before it had been the most productive in Europe (Ibid, p.79). However, these statistics were criticised by Friedman and Bhaskar (1976) who argued that:

> ".....the figures are more likely to indicate differences in investment and size of operations than labour ffort. For example, the figures also show that in 1973 the British produced 58 per cent fewer cars per employee than the Japanese. Did the Japanese suddenly begin to work that much harder over the 8 year period? The difference was due to the growth in the size of the Japanese motor industry and greater capital investment by the Japanese" (pp.315-6).

Table 38 Vehicles Produced/Employee/Year

	1955	1965	1973
UK	4.2	5.8	5.1
US	11.1	13.9	14.9
Germany	3.9	7.1	7.3
France	3.6	6.1	6.8
Italy	3.0	7.4	6.8
Japan	1.2	4.4	12.2

Source: CPRS, 1975, p.80

Friedman and Bhaskar also had grave misgivings about the lack of "scientific rigour", and the short-comings of the "controlled experiments" carried out by the CPRS. They considered that the experiments were invalidated because "industrial relations, components shortages, plant layout were not held constant, as they should have been in a controlled scientific experiment" (p.313). The only variable which should have varied was labour effort. Further, these experiments should also have considered the so-called "production rhythm" of the individual plants in question. This is because

> "Car plants consist of complicated inter-related production processes. Most operations require parts from a previous operation. It is quite wrong to make comparisons using a single line without looking at the remainder of the equipment which supplies the line. The speed at which a line can operate will depend on the whole production process. Such a complex process as car manufacture, relying on thousands of different components, achieves a production-rhythm. To replace any one machine or line in a plant will not appreciably alter this rhythm. Significant changes in the rhythm will often require more substantial investment" (p.313).

Other reservations and criticisms expressed in their evidence to the Expenditure Committee have been summed up by Bhaskar (1979):

> "Continental and UK plants are not directly comparable; the UK plants are older, less spacious and not as well planned as their European counterparts, and this, in turn, is a direct result of the failure to invest capital in new plant and equipment throughout the UK motor industry.....The capital investment within the UK motor industry has been abysmally low.....Older plant is frequently incapable of producing work of acceptable quality, which in turn means that rectification work must be carried out. Breakdowns are more frequent, leading to stoppages during and between shifts (which, due to the cramped lay-out of British plants, can bring the entire plant to a standstill while repairs are carried out). More maintenance staff are required to keep the equipment operating (up to 78 per cent more, according to the CPRS Report). Older machines are usually incapable of working as fast as newer ones, and often require more men to operate them, leading to higher manning levels and slower working. And, finally, plant lay-out itself can affect productivity, through lack of space or costly misuse of existing space. All of which affects the entire production process and, indeed, the morale of men who are obliged to work in far from perfect conditions" (pp.61-6).

The House of Commons Expenditure Committee and the Ryder Report (1975) on British Leyland also reached a different conclusion to the "think-tank". They likewise put the blame for low productivity on under-investment:

> "We believe that inadequate investment and the lower productivity of old plant have been the greatest contributors to the poor profitability of the mass-production car side of the industry" (Expenditure Committee, 1975, p.39).

and

> "This record of under-investment is the main reason for the low productivity of BL's workforce compared with, say, Fiat or Volkswagen" (Ryder, 1975, p.29).

The Expenditure Committee carried out a statistical analysis of the value added per man and the fixed assets per man, as shown in table 39. The Committee found that a close relationship existed between the two

variables, i.e. about 66% of the difference in value added per man could be explained statistically by different levels of fixed assets per man.

Table 39 Relationship Between Value Added Per Man and Fixed Assets Per Man (1974)

	Value added per man	Gross output per man	Fixed assets per man
GMC (US)	£ 8,600	£17,495	£ 4,346
Ford (US)	£ 7,966	£19,905	£ 5,602
Opel	£ 5,875	£14,747	£ 3,612
Daimler-Benz	£ 5,207	£12,672	£ 2,694
Volvo	£ 4,886	£14,790	£ 4,662
Ford Germany	£ 4,883	£14,186	£ 3,608
Volkswagen	£ 4,767	£11,087	£ 3,632
Saab	£ 4,637	£19,972	£ 3,141
Renault	£ 4,133	£12,928	£ 2,396
Ford (UK)	£ 3,901	£11,397	£ 2,657
Chrysler (UK)	£ 2,765	£ 9,968	£ 1,456
Vauxhall	£ 2,560	£ 7,975	£ 1,356
Fiat	£ 2,259	£ 8,142	£ 3,160
B.L.M.C.	£ 2,129	£ 6,539	£ 920

Source: Expenditure Committee, 1975, p.36, table 14

The Committee concluded that:

> "This means that until investment substantially increases the capital stock, productivity in the British motor industry will not be able to equal productivity abroad. These figures demonstrate that, given roughly equivalent environments, the inefficient use of resources as a result of poor management, marketing, capacity utilisation or industrial disputes accounts for a very much lower proportion of productivity differences than might be imagined.....we observed that much of the British disadvantage in terms of value added per man was a result of insufficient investment. A large proportion of the remainder is attributable to the age of the capital stock" (pp.36-7).

Employment

Employment in the British motor and components industry, including the tyre sector, was dependent on the investment and sourcing policies of both the vehicle and rubber companies. Following on from the integration of their European operations, Ford and General Motors (as well as the rubber companies) were seeking to reap the rewards from the greater efficiency and lower unit costs of their continental plants. In the absence of higher levels of capital expenditure, the productivity of the British motor and tyre plants were unable to match those in Europe, where higher wage levels were more than compensated for by higher efficiency.

As a result there was a rapid increase in imports into the UK. British Leyland estimated that the level of captive car imports was equivalent to just over 40,000 lost jobs in the UK (Financial Times, 2 November 1982). Further, many more job losses were attributed to the high level of imports from countries where British-produced cars were excluded by tariff or non-tariff barriers. These countries included: Spain, Japan, South Korea, Russia, Czechoslovakia, South Africa, Australia and Romania.

Ray Horrocks, then the Chairman and Chief Executive of BL, moved a resolution on behalf of the SMMT at the CBI Conference in 1981, which stated that if an extra 25,000 cars were exported to these countries, at least an extra 25,000 jobs would be created in the domestic motor industry.

However, so far no British Government has been prepared to take action to restrict captive imports, or any other imports apart from Japanese cars. As signatories to the Treaty of Rome, the Government is not in a position to take action against Community imports which, even if it attempted to do so, would be strongly resisted by Ford, GM and the other multinationals because of the effect that any policy of this nature would have on their international sourcing policies; whilst discriminatory action against imports from outside the Community would be in breach of G.A.T.T. (General Agreement on Tariffs and Trade).

In effect, therefore, the Government is relatively powerless to directly influence and control the policies of the multinationals. At best, government can only put pressure on the British-based manufacturers to source more of the home market from British production facilities, or encourage other manufacturers (e.g. Nissan) to set up operations in the UK. In the main, many of these companies have been sensitive to government concern about rising imports and their impact on the balance of payments, and have responded by buying British components, partly as a defensive measure and partly because they are competitive. As a result, by the end of the 1970s the components industry was larger in terms of employment, capital, sales and exports than the car industry (Dunnett, 1980).

Conclusions

Tyre manufacturing is an integral part of both the rubber and motor components industries and, as such, tyre output is determined by the corporate policies of the vehicle and tyre companies, as well as by market changes within the two industries.

The stagnation and decline in tyre output since the beginning of the 1970s can therefore be attributed to a number of inter-related factors:

1. The spread of the radial tyre coincided with the first oil crisis which together contributed to massive overcapacity in the British and European industry, much of it redundant capacity. The lack of investment by the British tyre companies ensured that the UK was holding a far larger amount of obsolete capacity than her European competitors, and consequently Britain suffered a far larger reduction in capacity and, hence jobs, than her continental rivals.

2. Dunlop was slow in responding to Michelin's technological breakthrough, and the company was left holding a surfeit of obsolete crossply and textile radial capacity when the market shifted to steel radials. Thus, Dunlop's failure to invest in modern auomated plant resulted in the company, with the exception of Firestone, cutting more capacity and shedding more jobs than her competitors.

3. Over the postwar period British manufacturing industry suffered from under-investment, leaving British industry less competitive and profitable than the Japanese and Europeans. Thus, the domestic output of cars slumped as the British manufacturers lost market share abroad and the home market became vulnerable to stylish imports from Japan and Europe.

   Further, as the vehicle companies began to integrate their European operations during the early 1970s, the home market suffered an influx of "captive" imports from the more modern continental plants.

   The net result was that the demand for tyres for original equipment fitment declined.

4. Meanwhile, the tyre companies similarly began to integrate their European operations, which also resulted in a large increase in "captive" imports from the continent. In addition, there was also a large increase in "competitive" tyre imports to meet the replacement needs of the foreign vehicle imports.

   Thus, the replacement market was depressed by the large influx of "competitive" and "captive" imports, as well as by the increased radialisation of the market.

Appendix 2

The Dunlop-Pirelli Union

The two companies agreed to merge in the Autumn of 1969, but the impending merger was not officially announced until Spring 1970. The passage of time was taken up tackling the fiscal, legal, administrative and profit issues thrown up by the merger plan. Dunlop was advised on how to structure the Union by Lazards. It was important, certainly as far as their respective share prices were concerned, that it was seen as an agreement between equal partners and not a disguised takeover. This principle led to certain operating activities being excluded from the Union, but they were not sufficiently large to affect the basis of the Union. The exclusion of these subsidiaries left each company contributing some £170 million worth of net assets (Thomas,1971, p.65).

Next the two companies had to adopt common accounting principles because of differences between British and Italian accounting practice. Price Waterhouse were engaged to resolve this matter. The parameters of these accounting principles were set by national laws and stock exchange rules. One major difference was that British companies had been legally obliged since 1948 to publish consolidated accounts, whereas no similar stipulation existed in Italy. Thus the more stringent demands of the London Stock Exchange caused the common accounting principles to more or less reflect standard British practice. This left Pirelli having to run two accounting systems, one for Italian legal requirements, the other for the purposes of the Union.

The four principle areas of reconciliation were the basis of depreciation charges, stock valuation, the employees severance fund and deferred tax provisions (Ibid). If we take the example of stock valuation, the Italians operated a system of LIFO (last in, first out), which was condemned in the UK by SSAP9 and was not recognised by the Inland Revenue for tax purposes. Instead the British operated FIFO (first in, first out), which was consequently adopted as the common basis by the Union.

Taxation also presented a number of problems. In order to retain their separate legal and national identities, both Dunlop and Pirelli had to create new companies to own their operating assets. This, however, would have left the parent companies, under the laws operating in the two countries, liable for capital gains tax on the paper profit made by the transfer of assets. In Britain, the matter was dealt with in the 1970 Budget, which waived Dunlop's liability to capital gains tax, providing that the purpose of the sale was to facilitate a genuine merger. Similarly, Dunlop incurred no tax liability for reducing its holding in subsidiaries to below 75%, as the company had to do under the terms of the agreement with Pirelli. The Italian company similarly benefited from legal arrangements made in Italy to exempt it from capital gains tax.

Details of the Union

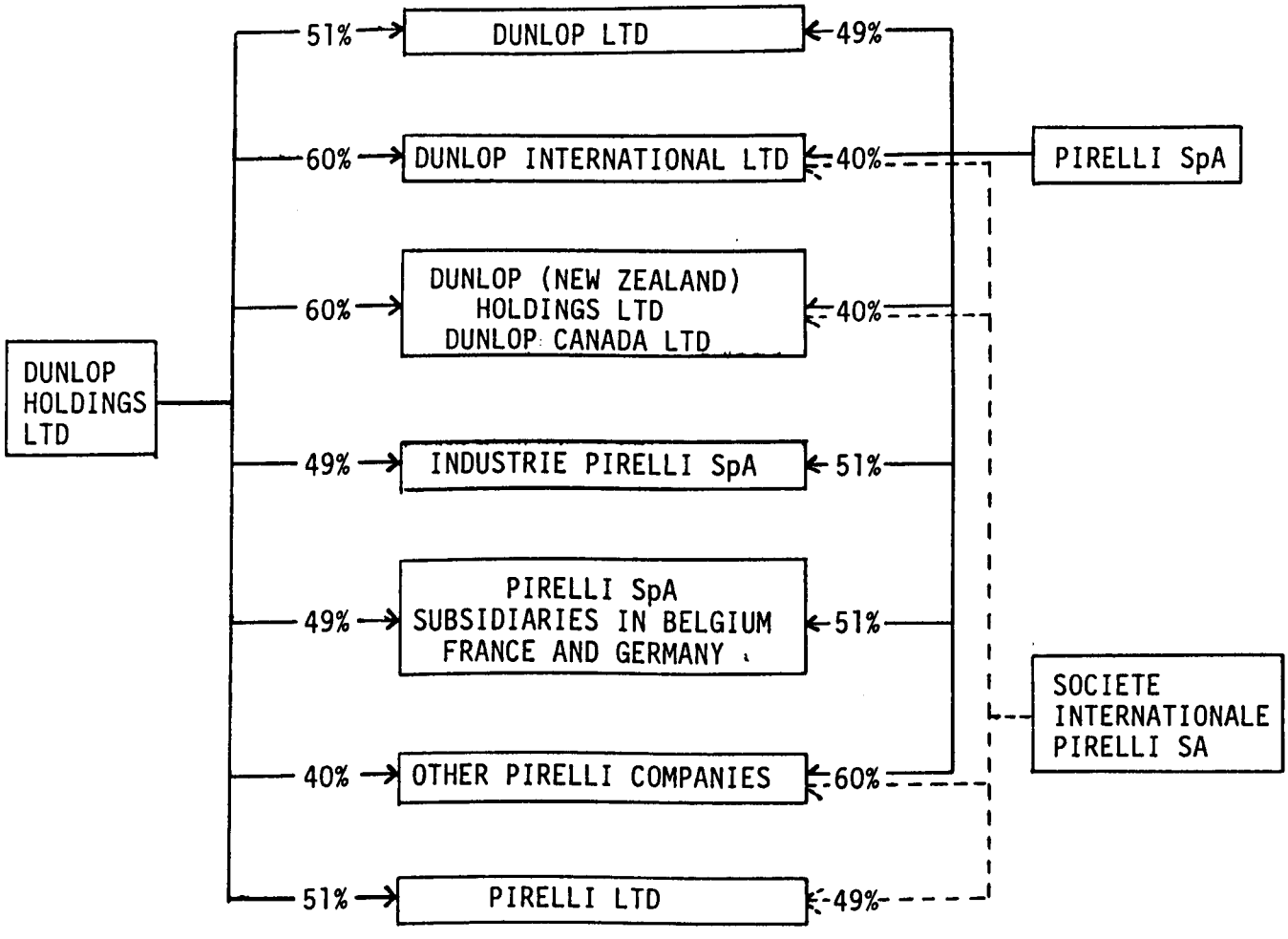
The Union was a complex arrangement as shown by the corporate structure in Figure 1. The Union comprised three main companies: Dunlop Holdings, the new parent company; Pirelli SpA, the Italian

holding company; and Societe Internationale Pirelli SA, the Swiss holding company.

The Swiss company (SIP) was set up in 1920 to overcome the international trading constraints imposed in Mussolini's Italy. SIP held a 12% stake in Pirelli SpA and owned all the Pirelli companies operating outside the EEC. To achieve a trading balance, because Italian law prohibited equal partnerships, the two partners exchanged a 49% equity stake in each of their European subsidiaries and a 40% holding in each non-European subsidiary for a corresponding stake in the partner's subsidiaries. Pirelli SpA and SIP acquired a joint 40% stake in the newly formed Dunlop International Ltd, which owned all subsidiaries outside the UK, except New Zealand and Canada, plus another 40% holding in the Dunlop subsidiaries operating in these latter two countries. Pirelli SpA took a 49% stake in the newly established Dunlop Ltd, which held all the subsidiaries in Britain, Holland, France, Ireland and West Germany. Pirelli Ltd, the UK operating company, proved the exception to the rule. In this particular case Dunlop had to take the controlling interest in order to comply with legislation set down in the Restrictive Trade Practices Act (1956).

Initially, some companies were excluded from the Union; Dunlop omitted its International Sports company and Dunlop Rhodesia, while Pirelli held back some Italian subsidiaries and an American selling company. All of these companies were later, either absorbed into the Union or sold.

Figure 1 Proposed Corporate Structure



Source: Dunlop, December 1970, p.8

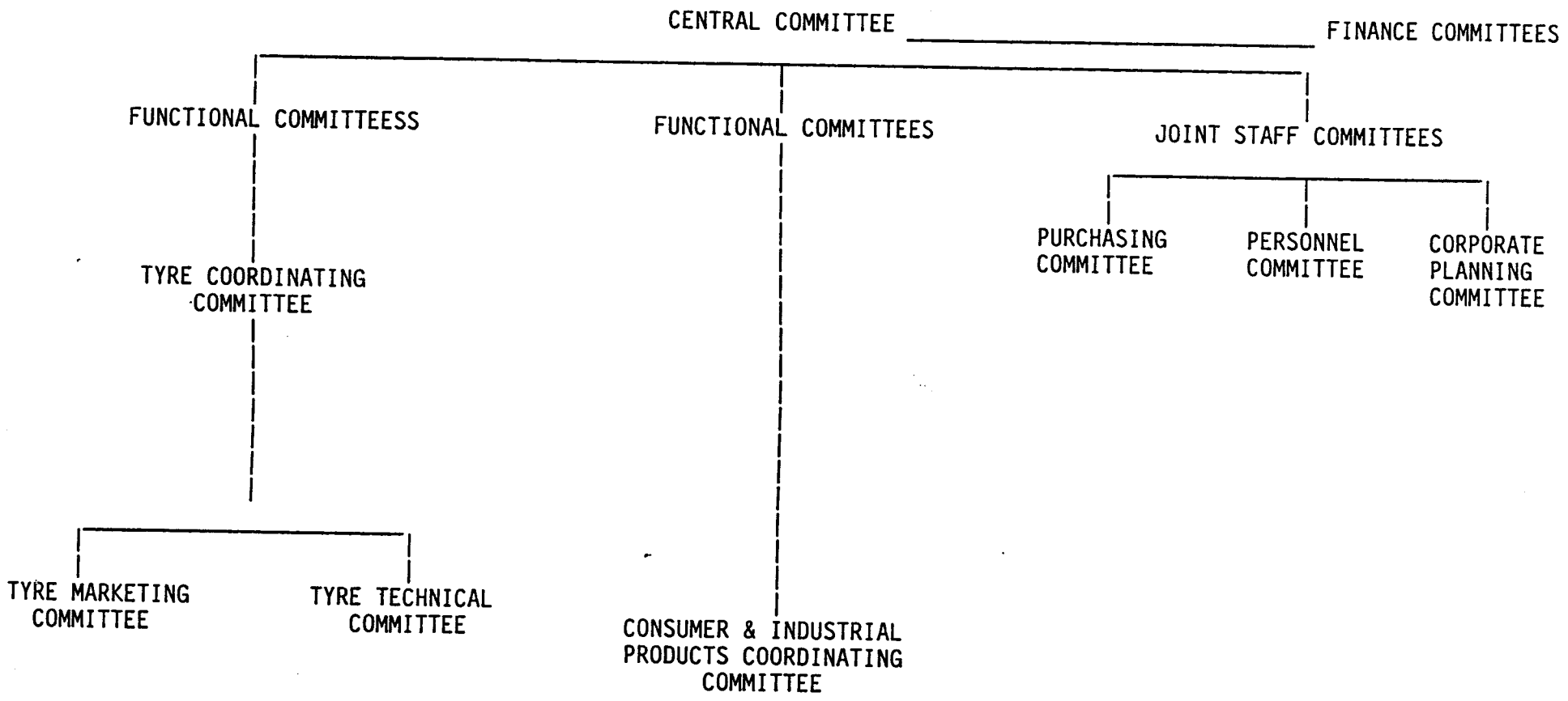
The basic principle of the Union was that each parent company should retain control of its original subsidiaries. This left both companies holding the balance of power in areas which had been their traditional preserve - which was perhaps an early indicator that a rapid rationalisation programme was being planned (Economist, 12 December 1970).

Management Control

To control the Union, an effective system to enhance co-operation and communication had to be established. Details of the management structure of the Union are shown in figure 2. The apex of the structure was the Central Committee which contained both chairman, who chaired the Committee in alternative years, and three executive directors from each company. This Committee met every month to decide and co-ordinate policy and strategy for the Union. However, for fiscal reasons the Central Committee only acted as an advisory body, making recommendations to the Boards of the parent companies on operations and plans for the Union. Executive control and authority rested with the parent companies, whilst responsibility for each company within the Union lay with the partner with the highest percentage holding. Under the terms of the Union, each partner had the right to be represented on the Board of each jointly owned company.

Below the Central Committee were a number of product or function orientated committees, staffed by a representative from each partner.

Figure 2 Management Structure of the Dunlop-Pirelli Union



Source: Crawford, 1972, p.232

The Functional Committees were limited to the two senior managers from each side of the Union. Beneath these lay a number of other committees, for example, the Tyre Co-ordinating Committee, which had subsidiary marketing and technical groups, while the Consumer and Industrial Products Co-ordinating Committee had subsidiary committees for each product. The purpose of all of these committees was to avoid duplication of effort.

It was envisaged that this management structure would allow the Union to operate on a single management control basis, enabling both companies to follow the same product planning programme. Dunlop and Pirelli were also able to derive mutual benefit from examining each other's work methods, visiting one another's factories and through discussions on how to improve quality and performance. Close co-operation was also established between the two puchasing departments, allowing them to significantly reduce their costs through joint buying of raw rubber and polymers. It was estimated that joint purchasing allowed the Union to make savings of more than £1 million per year (Economist, 3 February 1973, p.55).

Integrating research and development proved more difficult to achieve, in spite of the fact that it was one of the prime motives behind the merger. The major problem here was that Dunlop's laboratories were centralised, while Pirelli's were de-centralised (Crawford, 1972, p.232). Pirelli was reknowned for its engineering and technical expertise, which Dunlop badly needed access to, whilst Dunlop was better known for its specialist research into polymers. By combining these attributes, it was hoped that the Union would be able to

develop a broad range of new products. In fact Dunlop admitted that it would not have been possible to develop the Denovo (total mobility) tyre so quickly without Pirelli's help (Economist, 3 February 1973, p.55).

There was, however, little progress in the area of joint marketing, mainly because the two companies believed that it was strategically important to maintain separate brand names. Having two distinct tyre ranges allowed the Union two chances of winning the same original equipment contract, which was tactically extremely important, especially when the negotiating power lay with the vehicle manufacturers rather than the tyre producers. An additional reason was that an integration of brands would have led to rapid rationalisation and job losses; a move which would have been strongly resisted by the trade unions.

An Assessment of the Union

The Dunlop-Pirelli Union was perceived in many quarters as the possible shape of things to come for, if successful, it could have served as a model for other trans-European mergers. In the event this proved not to be the case, and in this section we shall consider the strengths and weaknesses of the merger, and question whether the Union was ill-conceived from the very beginning.

The evidence available shows that the Union was plagued by a number of problems from the outset. It cost Dunlop and Pirelli some £3 million between them to form the Union (Stanbrook, 1970, p.975); equivalent to nearly one-fifth of the combined net attributable earnings of the two companies in 1969. This was mainly spent on reconciling tax and

accounting differences, and developing a common accounting basis.

If we consider the five year financial statements for Dunlop and Pirelli, prepared in accordance with the common accounting principles, we can see from tables 2 and 3 that both companies were in a weak and deteriorating financial position.

The Dunlop statements show that from 1965-69, profit margins averaged 6.8%, peaking at 7.3% in 1968. In the same year operating profits reached a peak of £31.8 million, producing attributable profits of £11.2 million. The following year the slowdown in sales growth, accompanied by rising costs, produced a slight fall in operating profits. However, when higher interest payments were taken into account net attributable profits fell to £9.3 million.

The performance of the Pirelli companies going into the Union had also been extremely poor. Turnover at Pirelli did increase more rapidly than at Dunlop, but it slowed appreciably after 1967. A comparison of the profitability of the two companies over this five year period reveals that the results of Pirelli were more volatile. This was because the profit margins of Pirelli were squeezed as sales growth slowed down, falling from a peak of 12.9% in 1966 to 6.3% in 1969. As a result, Pirelli reached its peak of profitability in 1966, with operating profits of almost £35.7 million and net attributable profits of £14.8 million. By 1969, operating profits had slumped to £24.8 million and net attributable profits fell to 6.2 million.

Table 2 Dunlop - Combined Profit and Loss Account of those Companies and Divisions included in the Union (Years ended 31st December)

	1965	1966	1967	1968	1969
Sales	330,053	338,648	378,335	435,762	479,364
Operating Profit	22,070	22,299	25,299	31,835	31,453
Investment Income	67	44	82	108	187
Associates	593	357	427	638	971
Profit before Interest & Tax	22,730	22,700	25,808	32,581	32,611
Less: Interest	4,775	5,590	5,274	5,925	8,248
Profit before tax	17,955	17,110	20,534	26,656	24,363
Taxation	7,491	7,178	8,847	12,846	11,454
Profit after tax	10,464	9,932	11,687	13,810	12,909
Less: Minorities	1,785	1,844	2,167	2,607	3,603
Attributable Profit	8,679	8,088	9,520	11,203	9,306

Source: Dunlop, 3 December 1970, p.13

Table 3 Pirelli - Combined Profit and Loss Account of those companies and Divisions included in the Union (Years Ended 31 December)

	1965	1966	1967	1968	1969
Sales	239,940	275,362	316,210	351,429	392,896
Operating Profit	25,242	35,652	31,669	31,771	24,806
Interest Income	57	21	56	56	102
Associates	710	850	990	1,210	1,370
Profit before Interest & tax	26,009	36,523	32,715	33,037	26,278
Less: Interest	5,533	6,785	7,082	7,823	10,339
Profit before tax	20,476	29,738	25,633	25,214	15,939
Taxation	8,075	11,859	11,094	8,336	4,187
Profit after tax	12,401	17,879	14,539	16,878	11,752
Less: Minorities	2,853	3,067	1,736	4,945	5,533
Attributable Profit	9,548	14,812	12,803	11,933	6,219

Source: Dunlop, 3 December 1970, p.16

The poor trading performance of Pirelli and its impact on Dunlop is shown in Table 4. An analysis of the pro-forma Union profit and loss account shows that the rate of growth of sales was already starting to slow down after 1967. In that year turnover increased by 13.2%, but by 1970 the rate of growth had fallen to 10%, while profit margins narrowed to 6%. In fact, the results for the two years prior to the formation of the Union, 1969 and 1970 were pretty dismal. Operating profits in both years at £56.3 million and £57.2 million respectively were significantly down on the 1968 figure of £63.6 million. Further, the substantial increase in interest charges in 1969 and 1970, led to a sharp fall in attributable profits, from £23.1 million in 1968 to £10 million in 1970. Thus:

> "Judged by figures alone, Europe's newest giant appears to have been born, not from aggressive strength, but from a defensive posture (Thomas, 1971, p.69).

Worse was to follow when the symmetry of the Union was shattered in the first year of trading, when Pirelli's Italian subsidiary suffered an unprecedented trading slump; declaring losses of £18.6 million under the common accounting principles. The root cause of the problem was the large increase in inflation, particularly wage inflation in Italy, which coincided with stagnation in the Italian tyre market (Economist, 3 February 1973, p.54).

Pirelli had already lost its monopoly of supply contracts with Fiat, and was now beginning to suffer from the growing competition with Michelin. In response Pirelli advanced its $300 million programme of re-equipping its factories with radial technology. This planned expansion, however, coincided with recession in Italy in 1971, leaving

Table 4 Dunlop-Pirelli Combined Profit and Loss Account[1], 1965-77 (£m)

	1965	1966	1967	1968	1969	1970	1971	1971*	1972	1972*	1973	1973*	1974	1974*	1975	1975*	1976*	1977*
Sales	570	614	695	787	872	959	970	793	1,098	894	1,336	1,105	1,595	1,314	1,792	1,492	1,921	2,020
Operating Profit	47.3	58.0	57.0	63.6	56.3	57.2	58.5	65.8	68.5	76	106.7	97.2	108.9	100	NA	133	186	NA
Other Income	1.4	1.3	1.6	2.0	2.6	3.4	3.3	3.2	4.2	3.6	5.7	6.0	7.6	5	NA	4	NA	NA
Profit before Interest & tax	48.7	59.2	58.5	65.6	58.9	60.6	61.8	69.0	72.6	79.6	107.7[2]	98.4[2]	116.5	104.9	141	137	184	162
Interest charges	10.3	12.4	12.4	13.7	18.6	27.5	30.5	19.6	34.2	20.6	42.2	28.6	60.5	37.7	72	40	55	62
Profit before tax	38.4	46.8	46.2	51.9	40.3	33.2	31.3	49.5	38.5	59.0	65.5	69.9	56.0	67.2	69	97	129	100
Taxation	15.6	19.0	19.9	21.2	15.6	16.1	21.6	21.4	23.4	22.9	28.4	27.8	30.7	30.4	42	42	58	38
Profit after tax	22.9	27.8	26.2	30.7	24.7	17.1	9.7	28.1	15.1	36.1	37.1	42.1	25.3	36.8	27	55	71	62
Minority Interest and Pirelli	4.6	4.9	3.9	7.6	9.1	7.1	8.3	8.1	11.4	11.3	19.8	19.7	16.7	16.6	27	27	31	43
Union attributable profit	18.2	22.9	22.3	23.1	15.5	10.0	1.3	20.0	3.7	24.8	17.3	22.4	8.5	20.2	-	28	40	19
Dunlop share						7.0	10.5	10.5	12.6	12.6	10.5	10.5	10.5	10.5	14	14	19	19

1965-1969, Pro-forma combined profit and loss account

1 may not add up to totals due to rounding
2 excludes rubber market losses of £4.8 million
* excluding Industrie Pirelli Group

Profitability Ratios

Operating Profit/Sales	6.7	6.6	6.7	7.3	6.6	6.0	6.0	8.3	6.2	8.5	8.0	8.8	6.8	7.4	NA	8.9	9.7	NA
ROCE					8.9	8.4	8.2	12.6	8.5	12.9	11.3	13.5	11.1	12.8	12.5	15.3	NA	NA

Financial Ratio

Debt/Equity						88.2	102.1	75.0	107.4	70.6	101.6	70.0	107.2	70.7	103.6	61.6		

these plants operating at no more than 70% of capacity (Crawford, 1972, p.228). Furthermore, strong opposition from the Italian unions prevented the company from cutting costs by shedding labour.

Evidence of this mistimed expansion in Italy is provided by the substantial increase in interest charges, up from £18.6 million in 1969 to £27.5 million in 1970, rising to £30.5 million in 1971. As a result of these losses at Industrie Pirelli, Union attributable profits, instead of more than doubling from the £10 million declared in 1970 as the partners had hoped, slumped to a disastrous £1.3 million.

It is not entirely clear when Dunlop became aware of these pending losses at Industrie Pirelli. However, to protect the interests of Dunlop shareholders and to insulate them from these Italian losses, the parent companies agreed that Dunlop's 49% holding of ordinary shares in Industrie Pirelli should be converted into Preferred shares, so that the cumulative losses of the Italian subsidiary would fall first on the ordinary shares held by Pirelli SpA. By this arrangement all losses attributable to Dunlop were to be carried forward in Pirelli's accounts. However, these losses had to be fully covered by profits in subsequent years before Dunlop could participate in the profits of Industrie Pirelli. In effect, Dunlop had to forfeit 49% of its European earnings in return for nothing from its own stake in Industrie Pirelli - a major blow to Dunlop because the Italian subsidiary was initially viewed as a very profitable part of Pirelli. Reciprocal arrangements were similarly made in the capital structure of Dunlop Ltd, allowing the holding by Pirelli SpA to be converted into Preferred shares. The respective voting rights of Dunlop Holdings Ltd and Pirelli SpA in the two

subsidiaries nevetheless remained unchanged.

In 1972, there was no improvement in the Italian economy and the country continued to be plagued by industrial unrest, resulting in a further loss of £21.1 million by Industrie Pirelli. It was now apparent that these losses would continue into 1973 and that, unless appropriate action was taken, they would completely wipe out Pirelli SpA's holding in Industrie Pirelli, valued at the time at around £46 million. Any losses above this amount would have had to be borne by Dunlop. This would have been a particularly heavy burden to bear because Dunlop's attributable profits in 1971 were just £11.6 million and, in 1972, they amounted to just £13.4 million. Furthermore, Dunlop would not have been able to use any of these losses on its holding in Industrie Pirelli as an offset against taxation.

Continuing losses would have proved disastrous for Pirelli as well, since under Italian law a capital recontruction is required once accumulated losses total one-third of a company's total capital. In 1971, Industrie Pirelli had, under Italian accounting principles, lost around £10 million with a further £15 million expected in 1972 and continuing losses expected thereafter (Investors Chronicle, 3 November 1972, p.501). With the total capital of Industrie Pirelli standing at around £90 million, it would not have been too long before accumulated losses reached £30 million.

On 25 January 1973, the Board of Dunlop Holdings announced that Pirelli SpA would assume full financial responsibility for Industrie Pirelli, and that Pirelli had secured the necessary short and long-term

loans from its bankers. Dunlop Holdings would make no further investments in the Italian subsidiary until it returned to profitability. Instead Dunlop's investment went into its own plants in France, Germany and Sweden. Dunlop also had to write off its £41.5 million investment in Industrie Pirelli against reserves, wiping 40p per share off the value of its asset backing (Investors Chronicle, 26 January 1973, p.367). As a result, Dunlop's surplus on reserves declined from £47.6 million to a meagre £5.89 million.

The results for 1973, however, proved to be more encouraging and Industrie Pirelli was able to cut its losses to £5 million from £21 million the previous year. This was due to the pick-up in the Italian economy and the efforts of Pirelli to reduce costs and increase efficiency. Profit margins improved from 6.2% to 8% and in spite of higher interest charges, brought about by rising interest rates and increased borrowings, attributable profits increased from £3.7 million in 1972 to £17.3 million in 1973. Outside Italy, higher financing charges resulting from Dunlop's continued investment in radial technology caused attributable profits to fall to £22.4 million.

In 1974, the effect of copper price movements and steeper interest charges led Industrie Pirelli to declare a loss of £11.6 million. Margins became squeezed as the first oil crisis made its impact felt on manufacturing industry and the world headed for recession. The Union balance sheet meanwhile remained top heavy because of the large borrowings of Industrie Pirelli, as reflected by the debt/equity ratio, which increased from 88.2% in 1970 to 107.2% in 1974. Outside Italy, the level of borrowings was more manageable, with the level of debt to

equity standing at 70.7%.

The problems at Industrie Pirelli continued into 1975, culminating in the company increasing its share capital by £20 million (Lire 30 billion) to strengthen its financial position. This share increase was wholly subscribed for by Pirelli SpA, causing Dunlop Holdings' share of the equity to be reduced to 30%. After 1975, less information about the Union was disclosed in Dunlop's Annual Report. No balance sheet for the Union was disclosed from that date, whilst the combined profit and loss account including the Pirelli Group, also ceased to be made available.

In 1977, Dunlop produced its last Union profit and loss account, excluding Industrie Pirelli. Thereafter, no financial statements relating to the Union were disclosed, signifying that the merger with Pirelli was becoming less important to Dunlop, and that the company's main focus of attention was its own troubled European tyre operations.

A major reason why Dunlop formed the Union with Pirelli was to reduce its dependency on tyres and to participate in the lavish returns being earned from Pirelli's cable interests. Consequently tyres, which accounted for 55% of Union sales in 1967, had fallen to 49.5% by 1974 (see table 5b). Over the same period of time the cables and engineering products group increased their share of sales from 22% to 24.4%, and the Industrial products group from 9% to 12.1%. In terms of profits, the change around was even more pronounced. In 1967, tyres produced operating profits of £32.2 million (table 6a), equivalent to 56.5% of total operating profits (table 6b). By 1969, however, operating profits from tyres had slumped to £22.4 million or less than 40% of total

operating profit, mainly because profit margins were squeezed from 8.4% to 5% over this period. Once again this was early evidence that tyres were going to be a major drain on the financial resources of the Union. Margins recovered in 1970, but this was short-lived, as margins continued to narrow throughout the 1970s, falling to 4.5% in 1974.

In 1972, cables replaced tyres as the Union's main source of operating profits. The margins earned on cables were particularly attractive, reaching a peak of 16.3% in 1973. Only the margins earned by the Supply group were higher, averaging nearly 20% between 1967 and 1974. Not surprisingly, Pirelli began to devote a larger proportion of its resources to the cable business, so that by 1980 cables accounted for 43% of the company's total sales compared with 41% for tyres (Marfels, 1983, p.220).

In the same year, Dunlop's participation in Industrie Pirelli fell still lower. A consortium of Pirelli's creditor banks, led by Mediobanca of Milan, invested some $50 million in Industrie Pirelli via a consolidation of debt and a capital increase, which more than doubled the capital stock of the company. This gave the banking consortium a 23% stake in Industrie Pirelli, while the parent company's stake was reduced from just under 70% to 58%, and Dunlop's share fell to 19%. Dunlop did not participate in this reconstruction because it was facing problems of its own. More significantly, Pirelli separated the loss making tyre operations from the profitable cable operations by setting up a respective subsidiary company. This reconstruction effectively

Table 5a Analysis of Sales by Product Group of the Dunlop-Pirelli Union, 1967-74 (£m)

	1967[2]	1968[2]	1969[2]	1970	1971	1972	1973	1974
Tyres	382.0	425.1	444.9	492.6	511.4	584.0	692.3	790.2
Cables and Engineering products	152.8	165.3	200.6	217.9	208.2	232.8	306.9	388.5
Industrial	62.5	86.6	104.7	119.2	113.4	122.1	152.1	192.4
Consumer	90.3	102.3	113.4	120.0	128.6	147.5	168.2	199.7
Supply group	6.9	7.9	8.7	9.7	8.3	11.4	16.1	24.1
Total[1]	694.5	787.2	872.3	959.4	969.9	1,097.8	1,335.6	1,594.9

1 May not add up to totals due to rounding
2 calculated from Dunlop, 3 December 1970, p.19 and p.23

Sources: Dunlop, 3 December 1970 and Annual Reports

Table 5b Percentage Breakdown of Sales by Product Group of the Dunlop-Pirelli Union, 1967-74

Tyres	55	54	51	51.3	52.7	53.2	51.8	49.5
Cables and Engineering Products	22	21	23	22.7	21.5	21.2	23.0	24.4
Industrial	9	11	12	12.4	11.7	11.1	11.4	12.1
Consumer	13	13	13	12.5	13.3	13.4	12.6	12.5
Supply Group	1	1	1	1.0	0.9	1.0	1.2	1.5
Total[1]	100	100	100	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 5a

Table 6a Analysis of Operating Profits by Product Group of the Dunlop-Pirelli Union, 1967-74 (£m)

	1967[2]	1968[2]	1969[2]	1970	1971	1972	1973	1974
Tyres	32.2	36.7	22.4	30.1	28.2	26.1	36.0	35.6
Cables and Engineering Products	15.2	17.7	21.2	19.0	26.2	31.7	50.1	42.0
Industrial	4.1	4.6	6.5	4.6	1.0	5.6	12.0	17.9
Consumer	4.7	3.9	3.5	2.9	2.9	5.7	7.6	8.6
Supply Group	1.2	0.7	2.4	2.2	1.9	1.2	3.2	7.0
Total[1]	57.0	63.6	56.3	58.8	60.2	70.3	108.9	111.1

1 May not add up to totals due to rounding

2 Caclulated from Dunlop, 3 December 1970, p.19 and p.23 (adjusted to exclude Investment income and profits from associates.

Sources: Dunlop, 3 December 1970 and Annual Reports

Table 6b Percentage Breakdown of Operating Profits by Product Group of the Dunlop-Pirelli Union, 1967-74

Tyres	56.5	57.8	39.8	51.2	46.8	37.1	33.1	32.0
Cables and Engineering Products	26.7	27.9	37.7	32.3	43.5	45.1	46.0	37.8
Industrial	7.2	7.2	11.5	7.8	1.7	8.0	11.0	16.1
Consumer	8.2	6.2	6.3	4.9	4.8	8.1	7.0	7.7
Supply Group	2.1	1.0	4.2	3.7	3.2	1.7	2.9	6.3
Total[1]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 6a

signalled the end of the Union, with the recovering Pirelli unwilling to help the now ailing Dunlop finance the modernisation of its tyre operations.

In the three years up to the beginning of 1981, Dunlop had spent over £50 million modernising its European tyre facilities (Dunlop, 7 May 1981, p.2), but further capital expenditure was still needed to improve their competitive position. By early 1981, the heavy losses from the tyre operations had wiped out the share of capital and reserves of Dunlop Ltd. Pirelli was, however, unwilling to subscribe any new capital to the reconstruction of the company, thus leaving Dunlop to bear all future losses. This would have left Dunlop in the impossible position of allocating a substantial share of the profits from its overseas operations to Pirelli, which amounted to £9.1 million in 1979 and £7.7 million in 1980 (see table 7), while receiving nothing in return from the troubled Pirelli operations. Furthermore, Dunlop had for many years been suffering adverse cash flow from the Union (see section on cash flow). In these circumstances maintaining the Union in its present form appeared to offer little benefit to either party.

Both companies accepted that the original aim of the Union, to create a single business entity, was becoming increasingly difficult to realise. In recent years neither company had been prepared to direct funds towards common investment projects. Instead both companies had concentrated their resources on rationalising their own businesses in Europe and by investing in the expanding non-European markets. Since 1978, Dunlop and Pirelli had been engaged in discussions to seek ways to rearrange the structure of the Union to take account of the changing

circumstances, including the possibility of fuller integration. As their holdings in each other's European operating companies gradually became diluted, so the justification for maintaining the Union in its original form slowly weakened. In the end, Dunlop and Pirelli decided that it was in their best interests to end the partnership, but they agreed to continue to co-operate in areas where it was of mutual advantage, including purchasing, marketing and distribution.

Perhaps if Italy had not turned sour so early on things may have been different. If these problems had not occurred, then it is likely that the operations of Dunlop and Pirelli would have become more integrated, making it extremely difficult to dissolve the partnership. Early integration may also have made the Union strong enough to withstand the impact of the oil crisis, the recession in Europe, and the stagnation of the European tyre market, which were later to compound the existing problems and further undermine the Union.

Dissolution of the Union

On 23 April 1981, Sir Campbell Fraser, the Chairman of Dunlop, announced to The Stock Exchange and the press that the Union between Dunlop and Pirelli was to be terminated. It was agreed that the partnership should be dissolved in two stages, the first with effect from 1 July 1981, involving the return of the minority interests that Pirelli SpA and Dunlop Holdings held in each others' European operating companies, with the exception of Pirelli General Cable Works Ltd. The second stage involving the transfer of the remaining minority interests held in each others' companies took effect from 31 December 1981. In

addition, ajustments were made for any imbalances of cash flows, in respect of additional investments and dividends, which had arisen since the inception of the Union.

We can now see how each partner benefited from the Union, firstly, in terms of any net gain or loss of the share of attributable profits, and, secondly, as a result of cash flow movements between the partners.

Table 7 The Effects of the Dissolution of the Union on the Profit and Loss Accounts of Dunlop and Pirelli (before extraordinary items), 1976-80 (£m)

Attributable Profits £m	1976	1977	1978	1979	1980
Total attributable to Dunlop from Pirelli	10.7	8.7	5.2	(0.6)	(0.3)
Attributable Profits from Dunlop to Pirelli £m					
Dunlop Ltd	7.4	3.0	(4.9)	(12.7)	(25.1)
Overseas Operations	3.9	5.6	6.7	9.1	7.7
Total attributable to Pirelli from Dunlop	11.3	8.6	1.8	3.6	(17.4)
Net Benefit (Detriment) to Dunlop	(0.6)	0.1	3.4	3.0	17.1

Source: Dunlop, 7 May 1981, p.10

Table 7 shows that Dunlop's share of profits from Pirelli had turned into small losses in 1979 and 1980, due mainly to losses incurred in Spain and Argentina. Meanwhile, Dunlop Ltd, the UK operating

company, similarly started to suffer heavy losses between 1978 and 1980; in total £42.7 million, 49% of which was attributable to Pirelli. This does not mean that Pirelli had to pay any money to Dunlop to cover its share of the losses. Instead, Pirelli's share of Dunlop Ltd's share capital and reserves was reduced by the appropriate amount. Further attributable losses to Pirelli in 1981 however, completely eliminated its shareholding in Dunlop Ltd. With Pirelli unwilling to subscribe to any new capital injection into the company, all further losses would have been borne by Dunlop regardless of whether or not the Union was dissolved. Had the Union not been in operation between 1976 and 1980 all of these profits and losses, before extraordinary items, would have been attributed to Dunlop.

Pirelli, on the other hand, had also been able to secure increasing profits from Dunlop's relatively profitable overseas operations. Nevetheless, the earnings from these operations were not sufficient to offset the growing losses at Dunlop Ltd. As a result, Pirelli suffered heavy losses amounting to £20.1 million from its share of the Union in 1979 and 1980.

If we consider the five year period from 1976 to 1980, we can see that in 1976, Dunlop's share of profits from Pirelli was £0.6 million less than those which were attributable to Pirelli from Dunlop. In all other years the reverse had been the case, enabling Dunlop's profit and loss account to benefit to the extent of £23.6 million between 1977 and 1980.

Cash Flow

Table 8 shows the effect of the Union on Dunlop's net cash flow over the period 1976 to 1980. It is evident that Dunlop suffered a cash outflow in each of these years, due to a number of reasons. Over the five year period, the dividends paid to, and the investments by, Dunlop in Pirelli amounted to £24.2 million. This was significantly larger than those received by Dunlop which totalled £14.9 millions; producing

Table 8 The Effect of the Union on Dunlop's Cash Flow, 1976-80 (£m)

	1976	1977	1978	1979	1980
Dividends from Dunlop to Pirelli	(3.0)	(3.6)	(3.3)	(1.5)	(2.3)
Dividends to Dunlop from Pirelli	1.8	3.0	2.6	2.1	2.1
Investments by Dunlop in Pirelli	(7.0)	(2.2)	(0.3)	(1.0)	-
Investments in Dunlop by Pirelli	-	-	3.3	-	-
Financing charges incurred	(0.8)	(1.4)	(1.7)	(2.5)	(3.2)
ACT and corporation tax	(0.7)	(1.0)	(1.5)	-	-
Cash inflow (outflow)	(9.7)	(5.2)	(0.9)	(2.9)	(3.4)

Source: Dunlop 7 May 1981, p.11

a net outflow from Dunlop of £9.3 million. Added to this was compensation for the loss of use of this cash. In other words, the financing charges were calculated on the basis that, if the cash

compensation to be paid to Dunlop had been available to the company at the beginning of each relevant year, it would have reduced the Group's UK borrowings by that amount. Over the five years this added up to £9.6 million. The only other additions were: unrecovered ACT suffered on dividends paid to Pirelli plus corporation tax paid, which would have been reduced by Group relief had the Union not existed. This totalled £3.7 million. Under the terms agreed for the dissolution of the Union, Dunlop was paid £22.1 million to compensate it for the adverse cash flow suffered since the inception of the Union.

Appendix 3 Financial Statements

The Product Group

Tables 1a and 2a provide information on the composition of sales and operating profits by product group for the period 1970-83. The two accompanying tables, 1b and 2b, analyse these results as a percentage breakdown of total sales and profits by product group. An inspection of these tables shows that the tyre product group had been making a declining contribution to both total sales and total operating profits. In 1970, tyre sales, at £353.5 million, accounted for almost 63% of turnover. By 1975, this share had fallen to 60.6%, and even in 1979, a record year for tyre sales in money terms, the tyre group only accounted for 57.2% of turnover.

Turning to operating profits, it can be seen that profits from tyres increased from around £30 million in the early 1970s, to a record £45 million in 1976, before tailing off and falling to a record low of just 13 million in 1980. After that profits recovered, and in 1983 tyre profits increased sharply to £41 million, due mainly to the performance of the North American subsidiary (see table 4a). Measured in terms of the share of aggregate operating profits, table 2b shows just how poor the performance of the tyre operations had been. From a peak of almost 70% of total operating profits in 1971, the tyre group's share fell sharply to 25% by 1978, and in the same year its contribution to total profits was surpassed by the industrial products group. The tyre group's share then recovered, but this owed as much to the declining performance of the industrial products group after 1979, as well as to

Table 1a Analysis of Sales by Product Group, 1970-83 (£m)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	353.5	368.2	400.5	463.3	528.4	615	787	815	862	897	743	838	890	953
Industrial	71.6	67.9	71.3	84.1	114.0	133	164	182	209	231	244	210	202	198
Consumer)	92.8	100.9	116.4	141.9	169.6	188	157	167	187	204	170	167	216	218
Sports)							77	84	90	96	90	108	119	137
Engineering	36.9	39.8	38.2	44.7	52.2	57	74	77	87	95	73	82	98	97
Plantations)							30	36	40	46	57	51	-	-
Supply[1])	8.6	7.9	9.5	15.6	24.2	22								
Total	563.4	584.7	635.9	749.6	888.4	1,015	1,289	1,361	1,475	1,569	1,386	1,456	1,525	1,603

1 Mainly Plantations.

Sources: Dunlop Annual Reports.

Table 1b Percentage Breakdown of Sales by Product Group, 1970-83[1]

Tyres	62.7	63.0	63.0	61.8	59.5	60.6	61.1	59.9	58.4	57.2	53.6	57.6	58.4	59.5
Industrial	12.7	11.6	11.2	11.2	12.8	13.1	12.7	13.4	14.2	14.7	17.6	14.4	13.2	12.4
Consumer)	16.5	17.3	18.3	18.9	19.1	18.5	12.2	12.3	12.7	13.0	12.3	11.5	14.2	13.6
Sports)							6.0	6.2	6.1	6.1	6.5	7.4	7.8	8.5
Engineering	6.5	6.8	6.0	6.0	5.9	5.6	5.7	5.7	5.9	6.1	5.3	5.6	6.4	6.1
Plantations)							2.3	2.6	2.7	2.9	4.1	3.5	-	-
Supply)	1.5	1.4	1.5	2.1	2.7	2.2								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.01	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 May not add up to totals due to rounding.

Source: calculated from table 1a

Table 2a Analysis of Operating Profits by Product Group, 1971-83 (£m)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	30.8	30.0	29.9	29.6	38	45	25	16	22	13	24	21	41
Industrial	3.4	4.5	7.3	12.2	12	20	20	20	14	13	9	9	7
Consumer)	5.7	6.8	7.9	8.7	8	5	8	10	9	7	2	9	11
Sports)						6	6	4	3	3	2	(1)	1
Engineering	2.8	2.6	1.9	4.7	4	7	8	6	7	5	8	3	3
Plantations)						4	8	8	9	9	7		
Supply)[1]	1.4	0.7	2.3	4.8	3								
Total	44.1	44.6	49.3	60.0	65	87	75	64	64	50	52	41	63

1 Mainly Plantations

Sources: Dunlop Annual Reports

Table 2b Percentage Breakdown of Operating Profit by Product Group, 1971-83[1]

Tyres	69.8	67.3	60.6	49.3	58.5	51.7	33.3	25.0	34.4	26.0	46.2	50.0	65.1
Industrial	7.7	10.1	14.8	20.3	18.5	23.0	26.7	31.3	21.9	26.0	17.3	21.4	11.1
Consumer)	12.9	15.2	16.0	14.5	12.3	12.6	10.7	15.6	14.1	14.0	3.8	21.4	17.5
Sports)							8.0	6.3	4.7	6.0	3.8	*	1.6
Engineering	6.3	5.8	3.9	7.8	6.2	8.0	10.7	9.4	10.9	10.0	15.4	7.1	4.8
Plantations)					4.6	4.6	10.7	12.5	14.1	18.0	13.5		
Supply)	3.2	1.6	4.7	8.0									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 May not add up to totals due to rounding.
* losses are excluded from the percentage calculation

Source: calculated from table 2a

increased tyre sales in North America.

Overall the performance of the other product groups had also been poor, mainly because a number of those divisions which make-up the individual product groups were highly dependent on the motor industry and, were therefore, subject to any oscillations in vehicle demand. For example, the Fluid Seal, Polymer Engineering, and General Rubber Goods which were important divisions within the industrial products group, had been adversely affected by the decline in vehicle output and, more recently, by the growing trend by the British car manufacturers to source engines, gearboxes and other components from overseas suppliers (Annual Report, 1982, p.12). Meanwhile the Oil and Marine division, which was part of the same group remained the world's leading producer of offshore floating oil hose.

The Engineering products group experienced similar problems. The Automotive Engineering division had similarly experienced a reduction in the demand for wheels, concomitant with the fall in vehicle production. The most successful divisions were those producing Dunlopipe, used for conveying abrasive and corrosive fluids and, most importantly of all, the Aviation division, which was one of the world's major suppliers of tyres and components to the aircraft industry. It managed to increase its sales and profits in eight consecutive years to reach record profits in 1981 (Annual Report, 1981, p.11). No details were disclosed of the size of the profits earned by the Aviation division, though it was reported to have accounted for almost half the Engineering group's profits in 1976 (Annual Report, 1976, p.9).

The Consumer and Sports product groups also suffered from declining profitability, though in the former case profits did increase from a low of £2 million in 1981 to £9 million in 1982 and finally to £11 million in 1983. The Chemical products division, specialising in DIY adhesives had been particularly profitable in the early 1980s, whilst the Dunlopillo division was already affected by the recession in the furniture industry. The Sports group had similarly been earning very low profits, due mainly to growing competition from Far Eastern producers (Annual Report, 1977, p.12), and in 1982 the group recorded a loss of £1 million.

Profit Margins

From table 3 it can be seen that the profit margins on tyres were being squeezed, causing them to fall from 8.4% in 1971 to 1.9% in 1978. There was a slight recovery in 1979 but then margins fell to an all time low of 1.7% in 1980. However, even the substantial improvement in margins brought about by plant closures and job losses since then failed to convince Dunlop to continue producing tyres in Europe. Sir Campbell Fraser, Chairman of Dunlop and President of the Confederation of British Industry, addressing the 84th annual shareholders' meeting explained why:

> "The question that can properly be put (he told the meeting) is whether tyres in Europe will ever be a reasonable business earning a reasonable rate of return on investment" (Financial Times, 20 September 1983, p.18).

The answer to this question was clearly no and the deal with Sumitomo (discussed in a following section) provided Dunlop with the opportunity to rid itself of this loss-making operation.

Table 3 Operating Profit as a Percentage of Sales by Product Group, 1971-83 (£m)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	8.4	7.5	6.5	5.6	6.2	5.7	3.1	1.9	2.5	1.7	2.9	2.4	4.3
Industrial	5.0	6.3	8.7	10.7	9.0	12.2	11.0	9.6	6.1	5.3	4.3	4.5	3.5
Consumer)	5.6	5.8	5.6	5.1	4.3	3.2	4.8	5.3	4.4	4.1	1.2	4.2	5.0
Sports)						7.8	7.1	4.4	3.1	3.3	1.9	(0.8)	0.7
Engineering	7.0	6.8	4.3	9.0	7.0	9.5	10.4	6.9	7.4	6.8	9.8	3.1	3.1
Plantations)						13.3	22.2	20.0	19.6	15.8	13.7		
Supply)	17.7	7.4	14.7	19.8	13.6								
Total	7.5	7.0	6.6	6.8	6.6	6.7	5.5	4.3	4.1	3.6	3.6	2.7	3.9

1 Mainly Plantations

Source: calculated from tables 1a and 2a

Comparing the profits earned on tyres with those of the other product groups, we can see that Dunlop had consistently earned a higher margin on Industrial Products and Engineering since 1973 and 1974 respectively. Whilst fierce competition in the market for sports goods had eroded profits. Indeed the only very profitable group was Plantations. However, faced with mounting debt and the need to raise finance, together with political pressure from the Malaysian Government, keen to see vital assets locally controlled, Dunlop was forced to sell-off its plantations. It was probably this divestment that ultimately confirmed Dunlop's plans to sell-off its tyre manufacturing facilities in Europe.

Sales by Product Group and Regional Location of Company

Dunlop's strategy had, since the beginning of the 1970s, been to reduce its dependency on tyre manufacturing and to concentrate on developing other areas of its business interests. This policy was elaborated by John Dent, Managing Director, Dunlop Ltd, of Diversified Products:

> "One of Dunlop's objectives is to increase the share of its resources devoted to the profitable production and sale of Industrial, Consumer and Engineering products, and to increase their range. This we aim to achieve by energetic support for the growth of current sales; by regenerating and expanding the range of products of existing Divisions in the Company; by developing fresh products; and entering entirely new markets, sometimes by acquisition" (Annual Report, 1978, p.8).

Table 4a provides information on the extent of the divestment by geographical regions. In money terms there had been a trend decline in sales by the UK tyre division since 1978, when sales reached a peak of £265 million before falling to £190 million in 1983. In terms of total UK sales, tyres share fell from 47.9% in 1977 to 37.7% in 1983. In the rest of the EEC, rationalisation of the tyre operations was instigated

> ".....as part of the overall strategy to bring the European tyre group back to profitability" (Annual Report, 1979, p.10).

At the same time, the cost cutting programme implemented by Dunlop, together with the reduction in the workforce, contributed to large improvements in productivity in the tyre operations of a magnitude, 15-20% (Annual Report, 1980, p.3).

If we look at the other regions, tyre sales by and large were depressed, and there was a general tendency by Dunlop to reduce its dependency on tyres, with North America as the main exception to the rule. Here, tyre sales increased to £278 million in 1983; equivalent to 82.5% of total sales by the American subsidiary company, making it Dunlop's major producer of tyres (by turnover) worldwide and the market leader in sales of motorcycle tyres in North America. This was brought about by:

> "Productivity increases in both manufacturing facilities.... combined with reinvestment in modern equipment, (which) enabled considerable cost savings to be made....." (Annual Report, 1984, p.12).

The importance of the North American market to Dunlop can be seen from table 4b. The American subsidiary was able to increase its share

of tyre sales to the point where it accounted for 29.2% of the Group's sales in 1983. The UK tyre division by contrast saw its share of total tyre sales fall to less than 20% in the same year.

Any reduction in the share of total sales lost by tyres resulted in an increased share for diversified products (that is all other product groups excluding tyres). The bulk of sales by Dunlop Ltd, the UK operating company, was of non-tyre products, but after 1979, sales of diversified products fell from £354 million to £314 million in 1983. In other words, although Dunlop Ltd became less dependent upon tyre manufacturing than the Dunlop subsidiaries, this was not compensated for by any substantial increase in sales of diversified products. Indeed, table 4c shows that Dunlop Ltd's share of total sales of non-tyre products fell from a peak of 56% in 1980 to 48.3% in 1983. The UK operating company remained Dunlop's major source of sales, though the European Community and North America became increasingly more important.

The divestment away from tyres in the UK and the concentration of resources in other product areas did not by itself guarantee that non-tyre activities were safe from closure. Although Dunlop had extended the product range of a number of these groups; for example, Dunlop Irrigation Services was formed in 1977 as another division of the Industrial products group, and new companies were also acquired to complement or to add to the existing product range (including Soil-Less Cultivation Systems Ltd, a company specialising in hydroponic and nutrient cultivation), other companies were sold off across the product

Table 4a Analysis of Sales by Product Group and Regional Location of Company, 1976-83 (£m)

UK	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	215	257	265	264	192	176	185	190
Diversified Products	248	280	326	354	360	322	313	314
Total	463	537	591	618	552	498	498	504
% Tyres	44.4	47.9	44.8	42.7	34.8	35.3	37.1	37.7
Rest of EEC								
Tyres	227	235	254	277	167	163	260	254
Diversified Products	109	114	130	143	84	80	146	140
Total	336	349	384	420	251	243	406	394
% Tyres	67.6	67.3	66.1	66.0	66.5	67.1	64.0	64.5
Rest of Europe								
Tyres	10	11	11	12	13	11	11	12
Diversified Products	2	2	3	2	2	1	1	1
Total	12	13	14	14	15	12	12	13
% Tyres	83.3	84.6	78.6	85.7	86.7	91.7	91.7	92.3
North America								
Tyres	129	118	119	119	111	162	221	278
Diversified Products	43	43	41	40	36	41	42	59
Total	172	161	160	159	147	203	263	337
% Tyres	75.0	73.3	74.4	74.8	75.5	79.8	84.0	82.5
Central South America								
Tyres	9	8	8	6	9	12	17	20
Diversified Products	-	2	1	2	3	3	2	4
Total	9	10	9	8	12	15	19	24
% Tyres	100.0	80.0	88.9	75.0	75.0	80.0	89.5	83.3
Africa								
Tyres	66	68	72	86	103	130	112	102
Diversified Products	34	36	41	52	66	72	70	63
Total	100	104	113	138	169	202	182	165
% Tyres	66.0	65.4	63.7	62.3	60.9	64.4	61.5	61.8
Asia and Australasia								
Tyres	120	118	133	133	148	184	84	97
Diversified Products	63	69	71	79	92	99	61	69
Total	183	187	204	212	240	283	145	166
% Tyres	65.6	63.1	65.2	62.7	61.7	65.0	57.9	58.4

Sources: Dunlop Annual Reports

Table 4b Percentage Share of Total Tyre Sales by Regional Location of Company, 1976-83[1]

	1976	1977	1978	1979	1980	1981	1982	1983
UK	27.7	31.5	30.7	29.4	25.8	21.0	20.8	19.9
Rest of EEC	29.3	28.8	29.5	30.9	22.5	19.5	29.2	26.7
Rest of Europe	1.3	1.3	1.3	1.3	1.7	1.3	1.2	1.3
North America	16.6	14.5	13.8	13.3	14.9	19.3	24.8	29.2
Central & South America	1.2	1.0	0.9	0.7	1.2	1.4	1.9	2.1
Africa	8.5	8.3	8.4	9.6	13.9	15.5	12.6	10.7
Asia & Australasia	15.5	14.5	15.4	14.8	19.9	22.0	9.4	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 May not add up to totals due to rounding.

Source: calculated from table 4a

Table 4c Percentage Share of Total Sales of Diversified Products by Regional Location of Company, 1976-83[1]

UK	49.7	51.3	53.2	52.7	56.0	52.1	49.3	48.3
Rest of EEC	21.8	20.9	21.2	21.3	13.1	12.9	23.0	21.5
Rest of Europe	0.4	0.4	0.5	0.3	0.3	0.2	0.2	0.2
North America	8.6	7.9	6.7	6.0	5.6	6.6	6.6	9.1
Central & South America	-	0.4	0.2	0.3	0.5	0.5	0.3	0.6
Africa	6.8	6.6	6.7	7.7	10.3	11.7	11.0	9.7
Asia & Australasia	12.6	12.6	11.6	11.8	14.3	16.0	9.6	10.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 May not add up to totals due to rounding.

Source: calculated from table 4a

range as part of Dunlop's policy of rationalisation and retrenchment (these included Redditch Mouldings and Energy Engineering Divisions), or simply closed (like the rackets and frames factory at Waltham Abbey).

Dunlop also tried to reduce its dependency on the motor industry, especially as a number of divisions were major suppliers to British Leyland, and were therefore vulnerable to any reduction in Leyland's vehicle output. Dunlop found it difficult to alleviate the problem by gaining orders elsewhere, because many of the foreign motor companies operating in Britain tended to design in-house or had cultivated their own suppliers. The net effect of this strategy was that the vehicle industry only accounted for 15% of the total sales of the industrial division, compared with roughly 25% in 1978, which in turn led to a 60% reduction in employment within the division (Newman, 1982, pp.57 and 129).

Sales Policy

Although the UK had become a relatively less important base for both the manufacture of tyres and diversified products, it still remained Dunlop's largest market. Table 5a shows that measured in nominal terms, the domestic market produced peak sales of £618 million in 1979. Thereafter, sales declined before recovering slightly to £504 million in 1983.

A similar pattern occurred in the EEC, where sales peaked at £420 million in 1979 and stood at £394 million in 1983. The operations in North America by comparison achieved an initial peak of £172 million in

1976, before falling back to £147 million in 1980, from where sales rose sharply to £337 million in 1983.

Taking an overall perspective of sales, the UK operations saw their share of total sales fall from 43.1% in 1971 to 31.4% in 1983. This decline can be directly attributed to Dunlop's postwar strategy of reducing its dependency on the UK. According to Heller (1969):

> "Dunlop is moving up from a remarkable 60-40 split in favour of overseas to 70-30 - which helps to explain £90 million of overseas investment in the past decade". (p.60).

Alan Lord, then Managing Director, of Dunlop International Ltd, explained how this policy objective had been pursued:

> "Looking to the future we have three objectives overseas. First, we shall continue our policy of exporting from Britain wherever that is possible. Second, we shall broaden the base of our overseas companies when we judge that to be the best way to serve the local market, and by local diversification from existing lines. Last, we shall be on the lookout for opportunities to extend the Group's geographical range" (Annual Report, 1978, pp.8-9).

To assist with the implementation of this strategy, in 1978, Dunlop International Ltd, the parent company for the majority of non-EEC subsidiaries, became a Swiss-registered company by transferring from England to Switzerland, to facilitate investment in non-tyre activities outside Europe. As the company explained:

> "The main advantage of the move will be that Dunlop International can become more responsive to overseas opportunities" (Ibid, p.18).

The GMWU, on the other hand, saw it as an attempt "to bypass UK exchange and industrial policy constraints" (GMWU, 1978, p.12).

Table 5a Analysis of Sales by Regional Location of Company, 1971-83 (£m)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	252.2	258.8	286.0	345.2	393	463	537	591	618	552	498	498	504
Rest of EEC	131.7	148.9	182.4	225.2	255	336	349	384	420	251	243	406	394
Rest of Europe	5.1	5.3	6.0	8.1	10	12	13	14	14	15	12	12	13
North America	72.5	84.6	98.9	93.6)	119	172	161	160	159	147	203	263	337
Central & South America	6.6	8.6	10.1	9.1)		9	10	9	8	12	15	19	24
Africa	49.1	52.9	69.7	78.3	105	115	104	113	138	169	202	182	165
Asia	56.1	63.3	77.5	108.2)	133	182	187	204	212	240	283	145	166
Australasia	11.4	13.5	19.0	20.7)									
Total	584.7	635.9	749.6	888.4	1,015	1,289	1,361	1,475	1,569	1,386	1,456	1,525	1,603

Sources: Dunlop Annual Reports

Table 5b Percentage Breakdown of Sales by Regional Location of Company, 1971-83[1]

UK	43.1	40.7	38.2	38.9	38.7	35.9	39.5	40.1	39.4	39.8	34.2	32.7	31.4
Rest of EEC	22.5	23.4	24.3	25.3	25.1	26.1	25.6	26.0	26.8	18.1	16.7	26.6	24.6
Rest of Europe	0.9	0.8	0.8	0.9	1.0	0.9	1.0	0.9	0.9	1.1	0.8	0.8	0.8
North America	12.4	13.3	13.2	10.5)	11.7	13.3	11.8	10.8	10.1	10.6	13.9	17.2	21.0
Central & South America	1.1	1.4	1.3	1.0)		0.7	0.7	0.6	0.5	0.9	1.0	1.2	1.5
Africa	8.4	8.3	9.3	8.8	10.3	8.9	7.6	7.7	8.8	12.2	13.9	11.9	10.3
Asia	9.6	10.0	10.3	12.2)	13.1	14.1	13.7	13.8	13.5	17.3	19.4	9.5	10.4
Australasia	1.9	2.1	2.5	2.3)									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 May not add up to totals due to rounding.

Source: calculated from table 5a

Against this policy background it can be readily understood why Dunlop was not prepared to invest heavily in its domestic tyre operations. By contrast, higher levels of capital expenditure in the North American tyre operations were responsible for the American company increasing its share of total sales to 21% in 1983. Meanwhile the recovery in sales of tyres and diversified products, after the large falls in 1980 and 1981, allowed the EEC companies to raise their share back to pre-recessionary levels.

Profits by Region

Although the UK companies were Dunlop's major source of turnover, they were also the least profitable - though this was not always the case. Table 6a shows that between 1972 and 1977 the British-based companies earned larger profits than companies in other parts of the world, culminating in a peak of £31 million in 1976, or 35.6% of total profits (table 6b). Thereafter, profits fell sharply and an operating loss of £15 million was declared by the British-based companies in 1980. Plant closures and job losses slowly reduced these losses, allowing the British subsidiaries to break-even in 1983.

The thrust of Dunlop's policies to extend the geographical spread of its activities was certainly beneficial to investors. In 1971, 50.6% of total profits were earned by the UK and European companies. Gradually, however, the non-European operations started to account for the larger proportion of profits, particularly as losses in the European tyre facilities outweighed profits from the non-tyre operations. Eventually in 1983 all of Dunlop's profits were earned outside Europe.

Table 6a Analysis of Operating Profits by Regional Location of Company, 1971-83 (£m)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	10.8	12.9	11.7	21.7	21	31	30	18	2	(15)	(13)	(10)	-
Rest of EEC1	11.6	8.6	7.0	5.3	7	5	2	4	11	9	4	(6)	(4)
Rest of Europe	(0.2)	-	-	0.2	-	-	-	-	-	-	1	1	-
North America	7.2	8.6	8.4	7.3)	9	17	12	8	7	4	11	15	22
Central & South America	0.7	1.4	1.2	(0.3))		-	1	-	-	1	1	2	3
Africa	6.0	6.5	9.7	10.5	13	13	9	11	17	23	21	22	26
Asia	7.0	5.3	9.5	13.9)	15	21	21	23	27	28	27	17	16
Australasia	1.0	1.3	1.8	1.4)									
Total	44.1	44.6	49.3	60.0	65	87	75	64	64	50	52	41	63

Sources: Dunlop Annual Reports

Table 6b Percentage Breakdown of Operating Profits by Regional Location of Company, 1971-83[1]

UK	24.4	28.9	23.7	36.0	32.3	35.6	40.0	28.1	3.1	*	*	*	-
Rest of EEC	26.2	19.3	14.2	8.8	10.8	5.7	2.7	6.3	17.2	13.8	6.2	*	*
Rest of Europe	*	-	-	0.3	-	-	-	-	-	-	1.5	1.8	-
North America	16.3	19.3	17.0	12.1)	13.8	19.5	13.8	12.5	10.9	6.2	16.9	26.3	32.8
Central & South America	1.6	3.1	2.4	*)		-	1.3	-	-	1.5	1.5	3.5	4.5
Africa	13.5	14.6	19.7	17.4	20.0	14.9	12.0	17.2	26.6	35.4	32.3	38.6	38.8
Asia	15.8	11.9	19.3	23.1)	23.1	24.1	28.0	35.9	42.2	43.1	41.5	29.8	23.9
Australasia	2.3	2.9	3.7	2.3)									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

1 May not add up to totals due to rounding.
* losses are excluded from the percentage calculations

Source: calculated from table 6a

Table 7 confirms that the highest profit margins were being earned in Central & South America, Africa and Asia/Australasia. This was in spite of the fact that a far larger proportion of their sales, as compared to the UK (see table 4a), were dependent on tyres. Undoubtedly, their margins were not squeezed to the extent that they had been in Europe. In addition, their non-tyre operations were evidently less dependent upon the motor industry as well.

The North American facilities were similarly reliant upon tyre production for a high proportion of their sales, yet profit margins were also rising. This was unquestionably due to heavy capital expenditure in modern manufacturing plant.

Size of Market

As the British companies became an increasingly less important source of turnover and profit, the UK in turn also became a less important market. From accounting for one-third of worldwide sales, the UK's share had fallen to a quarter by 1983 (table 8). This was in line with stated company policy of extending its global geographical spread. An additional factor was the decline in manufacturing industry in Britain, and the slow growth of the British economy during that period compared with other industrialised countries.

Sales in the home market reached a peak of £506 million in 1979, before falling by 12.6% in 1980 and 8.6% in 1981, followed by a slight recovery in growth of 1% in 1982 and 1.2% in 1983. Exports suffered a similar fate, with sales down 3.9% in 1980 and 13.4% in 1981.

Table 9 reveals that the position had been reached by 1982, whereby sales in the EEC were on a par with those in the UK; indeed in that year they were actually higher. If we look at the position of the whole of the European market in global terms, we can estimate that in 1979 total European sales accounted for 63.9% of Dunlop's world sales. By 1981, sales in the European market had fallen below 50%, before recovering to 57.4% in 1982. Meanwhile, North America emerged during the 1980s as Dunlop's fastest growing market, and second in terms of importance to Europe. In 1979, North America accounted for 10.5% of Dunlop's worldwide sales, by 1983 this figure had doubled to 21.3%.

Table 7 Operating Profit as a Percentage of Sales by Regional Location of Company, 1971-83

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	4.3	5.0	8.3	6.3	5.3	6.7	5.6	3.0	0.3	(2.7)	(2.6)	(2.0)	-
Rest of EEC	8.8	5.8	3.8	2.4	2.7	1.5	0.6	1.0	2.6	3.6	1.6	(1.5)	(1.0)
Rest of Europe	(3.9)	-	-	2.5	-	-	-	-	-	-	8.3	8.3	-
North America	9.9	10.2	8.5	7.8)	7.6	9.9	7.5	5.0	4.4	2.7	5.4	5.7	6.5
Central & South America	10.6	16.3	11.9	(3.3))		-	10.0	-	-	8.3	6.7	10.5	12.5
Africa	12.2	12.3	13.9	13.4	12.4	11.3	8.7	9.7	12.3	13.6	10.4	12.1	15.8
Asia	12.5	8.4	12.3	12.8)	11.3	11.5	11.2	11.3	12.7	11.7	9.5	11.7	9.6
Australasia	8.8	9.6	9.5	6.8)									
Total	7.5	7.0	6.6	6.8	6.4	6.7	5.5	4.3	4.1	3.6	3.6	2.7	3.9

Source: calculated from tables 5a and 6a

Table 8 Sales in the UK and Overseas Markets, 1970-83 (£m)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	188						378	448	487	506	442	404	408	413
Exports	41	52	48	61	80	98	126	141	152	155	149	129	125	130
Overseas	312						785	772	836	908	795	923	992	1,060
Total	541	585	636	750	888	1,015	1,289	1,361	1,475	1,569	1,386	1,456	1,525	1,603
UK as % of Total Sales	34.8						29.3	32.9	33.0	32.2	31.9	27.7	26.8	25.8
UK + Exports as % of Total Sales	42.3						39.1	43.3	43.3	42.1	42.6	36.6	35.0	33.9

Sources: Dunlop Annual Reports

Table 9 Sales by Location of Customers, 1976-83 (£m)

UK	378	448	487	506	442	404	408	413
Rest of EEC	348	361	394	436	295	278	425	411
Rest of Europe	41	47	55	61	52	44	43	52
North America	180	165	168	165	150	203	266	341
Central & South America	18	18	20	17	24	31	32	30
Africa	138	129	144	166	192	219	201	190
Asia	186	193	207	218	231	277	150	166
Australasia								
Total	1,289	1,361	1,475	1,569	1,386	1,456	1,525	1,603

Sources: Dunlop Annual Reports

Exports

The Group's exports from the UK increased broadly in line with the turnover of the UK operations, averaging approximately a quarter of sales. After a period of almost continuous growth, exports reached a peak of £155 million in 1979 (table 10a). In 1980, they dropped slightly to £149 million, equivalent to 27% of UK sales; further evidence that Government policies had hindered manufacturing industry long before the recession was felt in Europe.

The product groups most affected were tyres and consumer goods. Tyre exports, which had been increasing up to 1978, declined sharply between 1979 and 1982. As a result, their share of total exports, presented in table 10b, declined from a high of 29.5% in 1973 to a low of 17.4% in 1980. But in 1983 tyre exports increased sharply to £35 million, or 26.9% of the total, mainly due to the large increase in the export of radial truck tyres and other tyres to the United States. Export earnings from consumer goods had in the meantime slumped to £6 million in 1983.

Industrial products still remained the prime source of overseas earnings, though even they were affected by the recession and the development of foreign manufacturing facilities. Exports of Industrial goods more than quadrupled between 1972 and 1980 to reach £70 million. This sharp increase in sales is reflected by the fact that their share of total exports jumped from 33.3% to 47% over this 9 year period. Their share then proceeded to decline, but unlike tyres they experienced no upturn in 1983. The Engineering group, and to a lesser extent the

Table 10a Exports from the UK by Product, 1970-83 (£m)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Tyres			14	18	22	27	37	38	42	32	26	26	24	35
Industrial			16	20	29	37	46	54	61	65	70	51	49	42
Consumer		)	12	7	9	11	12	13	14	18	10	8	6	6
Sports		)		9	11	13	16	18	18	19	22	19	21	19
Engineering			6	7	9	10	15	18	17	21	21	25	25	28
Total	41	52	48	61	80	98	126	141	152	155	149	129	125	130

Sources: Dunlop Annual Reports

Table 10b Percentage Breakdown of Exports by Product, 1972-83

		1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Tyres		29.2	29.5	27.5	27.6	29.4	27.0	27.6	20.6	17.4	20.2	19.2	26.9
Industrial		33.3	32.8	36.3	37.8	36.5	38.3	40.1	41.9	47.0	39.5	39.2	32.3
Consumer	)	25.0	11.5	11.3	13.8	9.5	9.3	9.2	11.6	6.7	6.2	4.8	4.6
Sports	)		14.8	13.8	16.3	12.7	12.8	11.8	12.3	14.8	14.7	16.8	14.6
Engineering		12.5	11.5	11.3	10.2	11.9	12.8	11.2	13.5	14.1	19.4	20.0	21.5
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 10a

Sports group, were the least affected, with the former experiencing a slight increase in earnings over this period. This enabled its share of exports to rise substantially after 1980, mainly because of the relative decline in earnings of the other product groups.

Exports by Country of Destination

The European Community emerged in 1975 as the major export market for Dunlop's UK operations. Tables 11a and 11b reveal that exports to the EEC quadrupled between 1973 and 1980 to reach £49 million, some 32.9% of the total. Unfortunately, Dunlop's accounts do not disaggregate this data by individual product groups, so one can only assume that the decline in earnings from the EEC was primarily due to a reduction in tyre exports. Significantly, the rest of Europe remained a major export market, mainly because Dunlop had few manufacturing facilities there, and therefore needed to source this market with exports.

Africa and Asia/Australasia were important markets, though they too suffered a down-turn in trade due to the recession in the early 1980s, whilst North America became a more important market owing to the high value of the dollar. However, any significant change in the dollar relative to sterling could reverse this trend, as happened after 1976 with the large rise in value of the petro-pound. In addition, the sale of Dunlop's European tyre interests, a major supplier of tyres to the American market, will also severely depress earnings from this source.

Table 11a Exports from the UK by Market, 1970-83 (£m)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Rest of EEC				12	16	22	30	34	40	46	49	40	41	38
Rest of Europe				15	19	19	24	26	27	31	23	20	21	24
North America				8	11	13	20	18	15	15	10	14	15	23
Central & South America				5	6	6	7	8	10	8	9	10	10	3
Africa				10	15	18	20	26	27	21	28	19	12	19
Asia & Australasia				11	13	20	25	29	33	34	30	26	26	23
Total	41	52	48	61	80	98	126	141	152	155	149	129	125	130

Source: Dunlop Annual Reports

Table 11b Percentage Breakdown of Exports by Market, 1973-83

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Rest of EEC	19.7	20.0	22.4	23.8	24.1	26.3	29.7	32.9	31.0	32.8	29.2
Rest of Europe	24.6	23.8	19.4	19.0	18.4	17.8	20.0	15.4	15.5	16.8	18.5
North America	13.1	13.8	13.3	15.9	12.8	9.9	9.7	6.7	10.9	12.0	17.7
Central & South America	8.2	7.5	6.1	5.6	5.7	6.6	5.2	6.0	7.8	8.0	2.3
Africa	16.4	18.8	18.4	15.9	18.4	17.8	13.5	18.8	14.7	9.6	14.6
Africa & Australasia	18.0	16.3	20.4	19.8	20.6	21.7	21.9	20.1	20.2	20.8	17.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 11a

Investment

Summarising the preceding sections, we can see that Dunlop's strategy of spreading its geographical and product base ensured that Britain would become both a less important manufacturing base as well as market for the company. The expansion into overseas markets left fewer funds available to invest in British production facilities.

Table 12a details capital expenditure by region between 1968 and 1983. The statistics for 1971 to 1974, which was the main investment period, are not directly comparable to earlier or later years because they include those Pirelli companies which formed part of the Dunlop-Pirelli Union. Over this period Dunlop-Pirelli invested £310 million, of which £170.6 million was spent on expanding capacity (55% of total expenditure) and £139.4 was spent on replacement and modernisation (45% of total expenditure). If we break this down further from the information available, we can calculate that from 1972 to 1974, 19.1% of total investment was expended in the UK compared to 55.1% in Europe. However, given that the British manufacturing facilities were older than those in Europe, the level of investment was insufficient to make them competitive with the more modern continental plants. This is because from 1958 to 1967, Dunlop's capital expenditure worldwide amounted to £163 million, of which £73 million was invested in Britain; and compares to a global investment programme over the previous decade of just £77 million (Heller, 1969, p.70). However, as we saw earlier most of this investment in the UK went on replacement and modernisation, as opposed to expenditure on the latest plant and machinery. The bulk of the investment in installing new capacity was therefore established outside of the UK.

Table 12a Analysis of Capital Expenditure by Region, 1968-83 (£m)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	12	13	12		12.5	17	12		17	23	23	22	25	27	21	22
Rest of EEC	4	7	11	72	37	27	28		3	14	13	16	10	11	13	10
Rest of Europe					7.75	4			-	-	-	-	-	-	-	-
North America	5		3	2	2.75	4			2	6	5	2	4	4	10	13
Central & South America	2	7		9	9.50	13	28			-	1	-	-	1	3	1
Africa	3		7	5	7	3			8	5	5	5	8	7	9	12
Asia & Australasia	2			4	2.50	3			3	6	9	9	8	10	5	8
Total	28	27	33	92	79	71	68	29	43	54	56	54	55	60	61	66

Sources: Dunlop Annual Reports

Table 12b Percentage Breakdown of Capital Expenditure by Region, 1968-83

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	42.9	48.1	36.4		15.8	23.9	17.6		39.5	42.6	41.1	40.7	45.5	45.0	34.4	33.3
Rest of EEC	14.3	25.9	33.3	78.3	46.8	38.0	41.2		30.2	25.9	23.2	29.6	18.2	18.3	21.3	15.2
Rest of Europe					9.8	5.6			-	-	-	-	-	-	-	-
North America	17.9		9.1	2.2	3.5	5.6			4.7	11.1	8.9	3.7	7.3	6.7	16.4	19.7
Central & South America	7.1	25.9		9.8	12.0	18.3	41.2			-	1.8	-	-	1.7	4.9	1.5
Africa	10.7		21.2	5.4	8.9	4.2			18.6	9.3	8.9	9.3	14.5	11.7	14.8	18.2
Asia & Australasia	7.1			4.3	3.2	4.2			7.0	11.1	16.1	16.7	14.5	16.7	8.2	12.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 12a

Dunlop's long-term strategy of reducing the level of investment in British production facilities is also confirmed by table 12b, which shows that in 1983 only 33.3% total capital expenditure was spent in the UK. Given that Britain was still the company's main tyre production base, and even after allowing for any cyclical patterns of investment, this was a compartively small amount. Bearing in mind that in real terms (adjusted for inflation), total investment was at a level which was roughly half that pertaining in 1968.

Alternatively, investment can be measured nominally in terms of numbers employed. Only since 1976 has it been possible to calculate detailed disaggregated statistics for all of the regions. One of the main disadvantages of this measure is that the UK was at that time still the main centre of operations, and therefore retained a significant head count of head office personnel. However, even allowing for this fact, it is unlikely that this alone could explain why investment per employee was consistently lower, indeed in some cases considerably lower, than that prevailing in most of the other regions. Furthermore, the recent narrowing of the gap between investment per employee in Britain and that in the other regions had more to do with the reduction of the British workforce than to any increase in capital expenditure. By contrast investment in the United States was increasing, whilst the size of the workforce remained unchanged.

Investment by Product Group

Tables 13a and b analyses capital expenditure by product group between 1976 and 1983; no information was disclosed for earlier years.

Table 13a Analysis of Capital Expenditure by Product Group, 1976-83 (£m)

	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	31	35	34	34	37	40	37	39
Industrial	5	9	11	10	9	9	11	12
Consumer	2	3	5	5	5	5	5	3
Sports	2	4	2	2	3	3	3	4
Engineering	2	2	3	2	2	2	5	8
Plantations	1	1	1	1	1	1	-	-
Total	43	54	56	54	55	60	61	66

Sources: Dunlop Annual Reports

Table 13b Percentage Breakdown of Capital Expenditure by Product Group, 1976-83

Tyres	72.1	64.8	60.7	63.0	67.3	66.7	60.7	59.1
Industrial	11.6	16.7	19.6	18.5	16.4	15.0	18.0	18.2
Consumer	4.7	5.6	8.9	9.3	9.1	8.3	8.2	4.5
Sports	4.7	7.4	3.6	3.7	5.5	5.0	4.9	6.1
Engineering	4.7	3.7	5.4	3.7	3.4	3.3	8.2	12.1
Plantations	2.3	1.9	1.8	1.9	1.8	1.7	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 13a

Further, this information was not disaggregated by region which would allow an analyst to see precisely how much was being invested, for example, in the British tyre factories compared with the European and North American facilities.

The bulk of investment was concentrated in tyre manufacturing, with most of the expenditure, particularly in the UK, used to convert production to steel radial technology. However, in line with company policy of concentrating investment in diversified products, the share of investment allocated to tyres fell from 72.1% in 1976 to 59.1% in 1983. The main beneficiaries were the Industrial and Engineering product groups, who saw their shares' of total capital expenditure rise to 18.2% and 12.1% respectively.

Research and Development

A major determinant of future potential sales is ultimately the amount of resources devoted to research and development. Table 14 shows that the amount of money spend on R & D, in nominal terms, more than doubled from £15 million in 1976 to £36 million in 1982. If expressed in terms of sales we can see that there was an increase from 1.2-1.3% between 1976-79, to 1.9% in 1980 and then to 2.4% in 1982. However, this can be attributed more to the slow down in sales than to any real increase in R & D expenditure. In fact, if allowance is made for inflation, R & D in 1982 was at a level roughly equivalent to what it was in 1976. Similarly, the increasing proportion of gross value added spent on R & D was more a reflection of the reduction in gross value added, especially after 1980.

Table 14 Expenditure on Research and Development, 1976-82

	£m	£m 1976 Prices	R & D% Sales	R & D Gross Value Added (ratio)
1976	15[E]	15	1.2	0.03
1977	16[E]	13.8	1.2	0.03
1978	17	13.5	1.2	0.03
1979	20	14.1	1.3	0.03
1980	26	15.5	1.9	0.05
1981	29	15.4	2.0	0.06
1982	36	17.7	2.4	0.06

[E] - Estimates

Sources: Dunlop Annual Reports

Few details were disclosed of how R & D was spent, though we do know that in 1981, nearly half was spent on diversified products, the rest on tyres (Annual Report, 1981, p.16). It was not revealed how this breakdown compared with previous years, though it is highly probable that after 1976 more emphasis was placed on the non-tyre product areas, and that this was reinforced by the formation of the Dunlop Technology Division in 1980, which incorporated the R & D facilities. However, the philosophy of the new Division was not to be totally pre-occupied developing new products. Instead emphasis was placed on developing new processes for direct application to existing operations, and for reducing costs. The fact that R & D spending had not increased in real terms was indicative of the fact that Dunlop was not planning on developing many new markets.

Employment

Between 1970 and 1983, Dunlop's workforce worldwide fell by just over 50%, from 107,000 to 63,000. The bulk of these job losses occurred

after 1979, with employment falling by 45.9% between 1979 and 1983 compared with 8.4% from 1970 to 1979. Table 15a shows that the majority of jobs lost over this period were in the UK. Here, employment fell from 55,500 to 22,000; a reduction of 60%. Once again most jobs were lost, roughly 50%, in the years from 1979-83, whilst 20.7% were lost from 1970-79.

The decline in employment in the UK can be attributed not only to government policies and the recession after 1979, but also to Dunlop's policy of concentrating its resources on overseas production and investment. The consequences of this policy was that the British workforce as a proportion of total employees declined from 51.9% in 1970 to 41.5% in 1983 (table 15b).

Employment in the European Community, by contrast, held up much better (after allowing for the consolidation and re-consolidation of Dunlop S.A., France), so that numbers employed in 1983 were only 4,000 below the 1977 level. This allowed the EEC countries (excluding Britain), owing to the greater loss of jobs outside the mainland community, to increase their share of the total labour-force from 17.6% in 1977 to 26.4% in 1983.

The trade unions were clearly aware that Dunlop was pursuing a policy of investing more heavily outside Britain, but they were unable to do little about it. According to the Birmingham Trade Union Resource Centre (1983), the conference held in Liverpool in 1975, attended by shop stewards from Britain, Germany, Italy, France and Spain did discuss "Dunlop's strategy of transferring investment to the poor world to

exploit cheap labour" (p.9). However, as we can see from tables 12a and b any increases in capital expenditure outside of the UK during this period was going to the industrialised countries of Europe rather than to the Third World. This much was recognised by the GMWU, which reported to delegates at the National Conference for the rubber industry that the UK:

> ".....has grown least quickly of all markets, and the impression gained from recent years is that it will be overhauled by the European market in the early part of the next decade" GMWU, 1977, p.18).

Moreover,

> ".....between 1974 and 1976, UK employees as a percentage of total worldwide employees fell from 49.5% to 47%.....Given the allocation of investment plans during the remainder of the 1970's, this percentage seems very likely to continue falling" (Ibid, p.25).

As it turned out, Europe did not overtake Britain as Dunlop's major market, though North America did emerge as an increasingly more important market. The problem for the trade unions, however, is that they are relatively powerless to determine the sales and investment policy of an employer. If successful this would ultimately be at the expense of jobs in other parts of Europe and the world. To counteract the inherent power of the employers, the unions would need to organise across international boundaries, but as we saw in chapter 6 any attempts to mobilise action at this level have proved short-lived.

Table 15a Average Number of Employees by Region, 1970-83 (000s)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	55.5	56	52	52	52	49	48	48	48	44	36	29	25	22
Rest of EEC)						17	18	18	17	17	9	9	15	14
Rest of Europe)						1	1	1	1	-	-	-	-	-
North America)	51.5	52	54	57	53)	4	3	4	4	4	4	4	4	4
Central & South America)					)		1	1	1	1	1	1	1	1
Africa)						9	9	8	7	9	9	9	9	7
Asia & Australasia)						22	22	22	22	23	22	23	5	5
Total	107	108	106	109	105	102	102	102	100	98	81	75	59	53

Sources: Dunlop Annual Reports

Table 15b Percentage Breakdown of Employees by Region, 1970-83

UK	51.9	51.9	49.1	47.7	49.5	48.0	47.1	47.1	48	44.9	44.4	38.7	42.4	41.5
Rest of EEC)						16.7	17.6	17.6	17	17.3	11.1	12.0	25.4	26.4
Rest of Europe)						1.0	1.0	1.0	1	-	-	-	-	-
North America)	48.5	48.5	50.9	52.3	50.5)	3.9	2.9	3.9	4	4.1	4.9	5.3	6.8	7.5
Central & South America)					)		1.0	1.0	1	1.0	1.2	1.3	1.7	1.9
Africa)						8.8	8.8	7.8	7	9.2	11.1	12.0	15.3	13.2
Asia & Australasia)						21.6	21.6	21.6	22	23.5	27.2	30.7	8.5	9.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: calculated from table 15a

Employment by Product Group

Tables 16a and b reveal that the largest proportion of job losses occurred in tyre manufacturing, with employment falling from 57,000 in 1976 to 30,000 in 1983; a fall of 47.4%. As we saw earlier, most of these jobs were lost in the "shake-out" after 1979, with tyres and the industrial products group suffering a 42.3% and 50% reduction respectively. Nevertheless, tyre manufacturing still remained the largest group employer in 1983, accounting for 56.6% of total employment.

We noted earlier that since 1979 Britain had experienced a greater loss of tyre manufacturing capacity through plant closures than any other European country. On top of this, with the exception of Firestone, Dunlop closed down more capacity in Europe that any other company, the greater part of which was located in the UK. In 1978, Dunlop's British workforce engaged in tyre manufacturing stood at 11,500, but with the closure of Speke and Inchinnan, followed by job cuts at Fort Dunlop and Washington, employment had slumped to 3,500 by 1982; a cut of 69.6%. Of the 23,000 jobs displaced from Dunlop's tyre manufacturing operations worldwide, between 1978 and 1982, 8,000 were in Britain; that is equivalent to 34.8% of the total tyre jobs lost. As a result, the UK accounted for only 10.9% of total employees working in tyre manufacturing in 1982, compared with 20.9% in 1978.

This reduction in numbers employed contributed to substantial improvements in company performance, as measured in terms of profit per employee (tables 17 and 18) and sales per employee (tables 19 and 20).

Even before adjusting for inflation, and allowing for the fact that there had been a slowing-down in the rate of growth of sales, it is clear that Dunlop was able to achieve a significant increase in productivity. The major improvement coming from the tyre group, where profit per employee, measured in money terms, more than trebled between 1979 and 1983.

Table 16a Average Number of Employees by Product Group, 1976-83 (000s)

	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	57	57	55	52	40	39	32	30
Industrial	15	16	16	16	15	12	10	8
Consumer	11	10	10	11	9	8	7	7
Sports	6	6	6	6	5	5	5	4
Engineering	6	6	6	6	5	4	5	4
Plantations	7	7	7	7	7	7	-	-
Total	102	102	100	98	81	75	59	53

Source: Dunlop Annual Reports

Table 16b Percentage Breakdown of Average Number of Employees by Product Group, 1976-83

Tyres	55.9	55.9	55	53.1	49.4	52.0	54.2	56.6
Industrial	14.7	15.7	16	16.3	18.5	16.0	16.9	15.1
Consumer	10.8	9.8	10	11.2	11.1	10.7	11.9	13.2
Sports	5.9	5.9	6	6.1	6.2	6.7	8.5	7.5
Engineering	5.9	5.9	6	6.1	6.2	5.3	8.5	7.5
Plantations	6.9	6.9	7	7.1	8.6	9.3	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from table 16a

Table 17 Operating Profit Per Employee by Region, 1971-83 (£)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	192.9	248.1	225.0	417.3	428.6	645.8	625.0	375.0	45.5	(416.7)	(448.3)	(400.0)	-
Rest of EEC)					411.8	277.8	111.1	235.3	647.1	1,000.0	444.4	(400.0)	(285.7)
Rest of Europe)					-	-	-	-	-	-	-	-	-
North America)	640.4	587.0	659.6	722.6)	2,225.0	5,666.7	3,000.0	2,000.0	1,750.0	1,000.0	2,750.0	3,750.0	5,500.0
Central & South America)				)		-	1,000.0	-	-	1,000.0	1,000.0	2,000.0	3,000.0
Africa)					1,444.4	1,444.4	1,125.0	1,375.0	1,888.9	2,555.6	2,333.3	2,444.4	3,714.3
Asia & Australasia)					681.8	954.5	954.5	1,045.5	1,173.9	1,272.7	1,173.9	3,400.0	3,200.0
Total	408.3	420.8	452.3	571.4	637.3	852.9	735.3	633.7	653.1	617.3	881.4	694.9	1,188.7

Sources: Dunlop Annual Reports

Table 18 Operating Profit Per Employee by Product Group, 1976-83 (£)

Tyres	789.5	438.6	285.7	423.1	325.0	615.4	656.3	1,366.7
Industrial	1,333.3	1,250.0	1,250.0	875.0	866.7	750.0	900.0	875.0
Consumer	454.5	800.0	1,000.0	818.2	777.8	250.0	1,285.7	1,571.4
Sports	1,000.0	1,000.0	666.7	500.0	600.0	400.0	(200.0)	250.0
Engineering	1,166.7	1,333.3	1,000.0	1,166.7	1,000.0	2,000.0	600.0	750.0
Plantations	571.4	1,142.9	1,142.9	1,285.7	1,285.7	1,000.0	-	-
Total	852.9	735.3	627.5	653.1	617.3	693.3	694.9	1,188.7

Sources: Dunlop Annual Reports

Table 19 Sales Per Employee by Region, 1971-83 (£)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
UK	4,504	4,977	5,500	6,638	8,020	9,646	11,188	12,313	14,045	15,333	17,172	19,920	22,909
Rest of EEC)					15,000	18,667	19,389	22,588	24,706	27,889	27,000	27,067	28,143
Rest of Europe)					10,000	12,000	13,000	14,000	-	-	-	-	-
North America)	6,394	6,983	8,133	10,249)	29,750	57,333	40,250	40,000	39,750	36,750	50,750	65,750	84,250
Central & South America)				)		9,000	10,000	9,000	8,000	12,000	15,000	19.000	24,000
Africa)					11,667	12,778	13,000	14,125	15,333	18,778	22,444	20,222	23,571
Asia & Australasia)					6,045	8,273	8,500	9,273	9,217	10,909	12,304	29,000	33,200
Total	5,414	5,999	6,877	8,461	9,951	12,637	13,343	14,604	16,010	17,111	19,413	25,847	30,245

Sources: Dunlop Annual Reports

Table 20 Sales Per Employee by Product Group, 1976-83 (£)

	1976	1977	1978	1979	1980	1981	1982	1983
Tyres	13,807	14,298	15,393	17,250	18,575	21,487	27,813	31,767
Industrial	10,933	11,375	13,063	14,438	16,267	17,500	20,200	24,750
Consumer	14,273	16,700	18,700	18,545	18,889	20,875	30,857	31,143
Sports	12,833	14,000	15,000	16,000	18,000	21,600	23,800	34,250
Engineering	12,333	12,833	14,500	15,833	14,600	20,500	19,600	24,250
Plantations	4,286	5,143	5,714	6,571	8,143	7,286	-	-
Total	12,637	13,343	14,460	16,010	17,111	19,413	25,847	30,245

Sources: Dunlop Annual Reports

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